AGRICULTURAL EMBARGOES AND THE SANCTITY OF CONTRACTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

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AGRICULTURAL EMBARGOES AND THE SANCTITY OF CONTRACTS

THURSDAY, JULY 29, 1982

U.S. SENATE, COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY,

Washington, D.C.

The committee met at 10 a.m. in room 5302, Dirksen Senate Office Building, Senator John Heinz (chairman of the subcommittee) presiding.

Present: Senators Heinz, Lugar, and Dixon.

Also present: Senators Rudy Boschwitz and Dave Durenberger.

OPENING STATEMENT OF SENATOR HEINZ

Senator HEINZ. This hearing of the International Trade Subcommittee is on international embargoes and the reason very simply is that exports mean jobs. Only 20 percent of industrial production depends on foreign markets for its existence. One out of every three acres of the farm is planted for export. With a trade deficit of over $140 billion over the last 5 years, we can ill afford to lose valuable markets.

Now one of the subjects when you start talking about agriculture and trade, of course, is embargo. They can be industrial. They can be agricultural. We've had more of the latter than the former. They have many effects. One is to call into question the reliability of the United States as a supplier and it's the Chair's view that they should be undertaken only in the most extreme circumstances, only after the most careful planning, and to the greatest extent possible only in cooperation and coordination with our friends and allies.

I trust we've learned the lesson that unless we get full cooperation from our friends and allies embargoes cannot be effective tools of foreign policy. Indeed, without that cooperation they are doomed to failure. They tend to signal the opposite of what's intended; namely, signaling weakness rather than strength.

Today we'll be hearing from representatives of the agricultural community. They have serious doubts and concerns about agricultural embargoes and I share many of those concerns, not only about effectiveness and fairness, not only as they relate to agricultural embargoes, but the same is true and the same goes for industrial embargoes.

The United States has potentially more control over world food supplies than Saudi Arabia has over oil, and if we're going to be

the world's principal supplier of food as we are today, that is an enormous asset for us which we should not lightly jeopardize.

That is why we should think long and hard about the conditions under which embargoes ought to take place, about the effect that those embargoes are likely to have on our own country.

I'm sure that this hearing will make an important contribution to that process and the witnesses who will be testifying today will provide valuable insights on the impact of agricultural embargoes on ourselves and on our potential customers throughout the world.

Before I recognize our first witness, I want to observe that the Senate Finance Committee on which I also served has conveniently scheduled competing hearings. They start at 9:30 on unemployment compensation on a bill, among others, S. 2550, my bill—I think it may also be Senator Durenberger's bill—to extend unemployment compensation by an additional 13 weeks. So for that reason, I have asked and Senator Lugar has kindly accepted and assented to chairing these hearings. I think that's quite appropriate, not that Pennsylvania isn't proud of its agricultural community—we have the largest rural population of any State in the Nation, 3¼ million Pennsylvanians. We are the fourth in dairy production, not quite up there with Minnesota and Wisconsin but not far behind New York, but Indiana, of course, has a tremendous interest in agriculture and my colleague, Senator Lugar, serves on the Agriculture Committee. So I can't think of better hands to leave the hearing in other than mine perhaps than his.

So with that, Dick, may I turn the gavel over to you.

Senator LUGAR. Thank you, Mr. Chairman. Before you depart, I just want to express my very personal appreciation to you for your willingness to schedule this hearing which I think will be important and productive and I'm grateful to you.

Senator BOSCHWITZ. Mr. Chairman, I might point out with respect to dairies, as you point out, that you are indeed one of the large producing States and with respect to numbers of dairy farmers you even have a larger portion of the total, of about 7 percent of the dairy farmers in the country do their business in Pennsylvania. There are 22,000 or 23,000 dairy farmers in the State, almost as many as we have.

Senator HEINZ. Thank you, Senator Boschwitz.

OPENING STATEMENT OF SENATOR LUGAR

Senator LUGAR. Mr. Chairman, I would make a short opening statement before recognizing our colleague, Senator Dixon, and then our distinguished colleagues and witnesses from Minnesota.

The Subcommittee on International Finance meets today to receive testimony on legislation to amend the law govering agricultural exports. The subcommittee is considering legislation to restrict the President's authority to interfere with valid export contracts. The 1980 grain embargo on the Soviet Union declared by President Carter was an unmitigated disaster. Some have tried to rationalize and justify the embargo in terms of exotic foreign policy signals and symbols, but the destruction inflicted upon the American farm economy was quite real and quite lasting.

Consistent with his campaign promise, President Reagan lifted the embargo. That was a responsible action. But the farm economy has a continuing problem in the fact that there is no guarantee that we will not have another embargo at any moment.

To be sure, President Reagan has indicated his aversion to that idea and beyond this the Congress has passed legislation that would make a strictly agricultural embargo very costly. But the fact is that since agricultural products make up 75 to 80 percent of our exported products to the Soviet Union, either an across-the-board embargo would be essentially an agricultural embargo.

The President himself may be averse to another embargo, but scarcely a day passes that we do not see further speculation by some foreign policy source about how costly another embargo would be for the Soviet Union. Our European friends, for example, raised the subject repeatedly as a reproach to our raising questions about their provision of financial credits to the Soviet Union.

The fact is that another embargo would be a very bad idea. A Republican administration embargo would be every bit as unwise and disastrous as a Democratic administration embargo. There is simply nothing in the history of embargoes to suggest that they possess any but the most limited usefulness and only under certain very special circumstances at that.

There is at this moment considerable debate about the nature of the Soviet empire and whether the West can through trade, credits, and other economic means affect its policy. Much speculation is occurring about the nature and extent of Western leverage over the Soviet Union, but there is one matter about which no speculation is necessary, and that is the effect of a grain embargo upon citizens of this country, that is the United States. One in three farm acres in this country grows crops for export. Without a healthy export economy the American farm sector will be in perpetually poor shape. We must pursue farm exports in a highly competitive world market, a market in which consistency and reliability are major factors in securing foreign business.

Nations which import food simply cannot afford to take chances with uncertain suppliers. I have introduced S. 2357 to provide the world this needed reassurance about American intentions to be a reliable agricultural exporter. The bill provides that no restrictions shall be imposed on valid contracts for a period of 180 days following the announcement of export restrictions.

The bill allows the President to impose export restrictions. It does not take away his right to declare an embargo. It simply makes clear that existing contracts will be honored and that contracts once entered into will not be broken. This is the least assurance that we as a government can provide.

No President wants restrictions upon his powers, but our form of government contains many restrictions upon the powers of the President and the other branches of government, and the right of contract is an important aspect of American citizenship. Today's witnesses will, I believe, offer ample evidence that our experience with embargoes has been a negative one and that it is time to dispel the illusion that agricultural embargoes are a useful tool of foreign policy.

I'd like to recognize my colleague, the distinguished Senator from Illinois. Do you have an opening comment or statement, Alan?

Senator DIXON. Thank you, Mr. Chairman. I have a more lengthy statement I will insert in the record, but briefly let me say the vital importance of American agricultural products in world trade is well known. Agricultural exports constitute about 20 pecent of all U.S. exports with a value of over $40 billion. Exports provide a substantial portion of the farmers' income and greatly help in reducing our negative balance of trade.

With commodity prices continuing downward and interest rates remaining high, the viability of these export markets is critical to our economy. American Presidents, both Democratic and Republican, have imposed three embargoes of agricultural commodities in recent years. That's far too many and demonstrates a need for a change in the law to prevent excessive use of embargoes of agricultural commodities in the future.

Last year I offered legislation that would have prohibited future trade embargoes of agricultural products for national security or foreign policy reasons unless they are part of an across-the-board trade ban. This amendment passed the Senate but did not survive the House-Senate conference.

I'm a co-sponsor of two of the measures that will be examined today, S. 2857 and S.J. Res. 185. These measures will help us establish a well coordinated, well thought out trade policy. American agriculture has been the victim of poor trade policy in the past. Today's hearing is the beginning of the process that will insure that needed changes are made. I thank the Chair.

[Complete statement follows as though read:]

OPENING STATEMENT OF SENATOR DIXON

Senator DIXON. Mr. Chairman, American Presidents, both Democratic and Republican, have imposed three embargoes of agricultural commodities in recent years. That is far too many and demonstrates the need for a change in the law to prevent excessive use of embargoes of agricultural commodities in the future.

Agriculture is our largest exporter; agricultural exports constitute about 20 percent of all U.S. exports—over $40 billion in 1982. But agricultural exports are not only important to the American economy, exports are also vital to the health and financial well-being of the American farmer. Approximately one-third of all U.S. farm production is devoted to exports, making it clear that the loss of export markets would have devastating results.

I was pleased, last year, to offer legislation, along with my senior colleague from Illinois, Senator Percy, designed to insure that American agriculture would no longer be singled out in the future to bear a disproportionate share of the burden made necessary by difficult foreign policy decisions. My amendment would have prohibited restrictions on the export of agricultural products to any country for foreign policy reasons, unless the embargo was in conjunction with an across-the-board ban on all trade with a country, or unless Congress adopted a joint resolution approving the restrictions.

That amendment was adopted by the Senate by a vote of 66 to 20. Unfortunately, it did not survive the House-Senate conference on the Export Administration Act amendments. I continue to believe that this change is necessary, however. I continue to believe Congress must act to change the law to insure that embargoes are only used when absolutely necessary.

I am pleased to be a cosponsor of two additional measures designed to help achieve that goal. The first, authored by my distinguished colleague on the Banking and Agriculture Committees, Senator Lugar, prohibits the imposition of any restrictions on the export of agricultural commodities which interfere with valid contracts entered into before the imposition of export controls, if the agricultural commodities are delivered within a 6-month period from the time controls are imposed.

The second, authored by my distinguished colleague, the Senator from Kansas, Senator Dole, bans any restriction on the export of agricultural commodities "except as a part of the most extreme circumstances that justify the united support of the free world community, including the active cooperation of the major trading nations of the world."

I think these are both badly needed changes and I hope they can be quickly enacted. I think we must do all we can to insure that this specter of embargo is lifted from the farm community. Farm income is at depression levels; agricultural commodity prices are depressed. And part of the reason is the lack of certainty that an agricultural embargo will not be imposed in the near future.

I hope today's hearings, therefore, will be the beginning of a comprehensive reexamination of our trade policy. We need to insure that the future will be different that the past—that excessive use of agricultural embargoes will cease. We also need to insure that embargoes of other commodities are well thought out, necessary, and workable, before they are imposed. All too often, trade policy results in damaging American manufacturers—American businesses, including agriculture and suppliers of agricultural products—while not working effectively against the country at which they are aimed. We damage our relations with our own allies, and create an image of unreliability as a supplier in world markets. The result is that, increasingly, the United States is the supplier of last resort. We only get business that no one else can handle.

It should be remembered, however, that most of what we produce is not unique. American wheat can be, and was, replaced in part by Argentine wheat when we last embargoed the Soviets. Caterpillar tractors can be, and are, being replaced by Japanese tractors, when we refused to permit the sale. World markets are increasingly competitive; we ignore that fact at our own peril.

We need exports, a larger volume of exports, to help restore our economy to health. Every $1 billion in exports means 30,000 jobs, jobs that we cannot afford to lose because of the lack of a well-coordinated, well-thought-out trade policy.

American agriculture has been the victim of poor trade policy in the past. Today's hearing is the beginning of the process that will insure that needed changes are made. I believe agriculture can and will point the way toward needed reform across the spectrum of trade policy.

Senator LUGAR. Thank you very much, Senator Dixon.

The Chair would like to recognize now a distinguished colleague, Senator David Durenberger of Minnesota, who has introduced S. 2410, legislation pertaining to embargo and export contracts. We'd be delighted to hear your testimony on that legislation as well as the general subject.

STATEMENT OF DAVE DURENBERGER, U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Thank you very much, Mr. Chairman. Let me compliment you and the chairman of the subcommittee and Senator Dixon and my colleague, Senator Boschwitz, who has held extensive hearings on embargoes in his capacity as chairman of the Agriculture Committee's Subcommittee on International Trade.

The chairman of this subcommittee, Senator Heinz, has already referred to one of my problems this morning in the Finance Committee, and both of us have a hearing we should be at in the Intelligence Committee at this same time, so I'm not going to be able to stick around and listen to the real experts who will be testifying on the panels today, several of whom are from our home State.

I am the sponsor of one of the bills under consideration today and joined with you, Senator Lugar, in the introduction of the other. I think the differences between our proposals are relatively minor and I'm personally confident that with the solid base of information that this hearing will provide us that these differences can be resolved. I'm very hopeful that despite the limited time that appears to be remaining to the Congress this year that we will be able to act on one of these proposals because both of them go a little further than Senate Resolution 185 which we're all part of but which Senator Dole introduced.

NO MORE EMBARGOES

Today's hearing is a continuation of a process that was begun on March 22 when President Reagan, as you indicated, honored a campaign promise when he addressed the American Agricultural Editors Association and gave farmers of America some good news when he said that there will be no more embargoes and then added, "except in extreme situations and only when we have the cooperation of other trading nations."

Now as a simple statement of policy, if we could pass that one into law, I think we would take care of the situation and to a degree the sanctity of contract legislation that I've introduced would do that.

S. 2410 provides a mechanism to restore fairness for American agricultural producers and to restore—and this is very important—international confidence in the United States of America as a reliable source for foreign feed grain. It requires the U.S. Government to honor the sanctity of all agricultural commodity export contracts except during periods of a declared national emergency or war.

EMBARGOES USED TO ACHIEVE FOREIGN POLICY OBJECTIVES

Mr. Chairman, the future of American agriculture lies in aggressive market development, but a strategy of market development is never going to succeed with the specter of the Federal Government hovering over the market every time it believes that food can be used to achieve foreign policy objectives, and our efforts today should be seen as a sign that this Senator, these Senators, and the Senate as a whole, rejects that notion.

I ask that the balance of my statement be put in the record and I just want to make a few other comments. Since you and I and the chairman of this subcommittee are all up for reelection, we may spend a little bit more time in our home States, all of which are agricultural States, than other people in the U.S. Senate, and if you have your ear anywhere near the ground and if you've had it there anywhere in the last 3 years since Afghanistan, I think you understand the needs of American agriculture and what they can contribute to the world economy.

It was really incredible to me, as I'm sure it was to you, in January 1980 when President Carter announced the embargo relative to Afghanistan, that the American farmers said, "It wouldn't work," but they went along with it. They went along with it because they felt that they would contribute, whatever American foreign policy might be, to get the Soviet Union out of Afghanistan. They were right; it didn't work, and it was the fourth of those embargoes that didn't work.

I think the important point to be made is that unless we build a legislated policy boundary around agricultural policy and foreign policy, we are going to have problems. All you have to do is go down to any commodities market—Chicago, Minneapolis, wherever—and you just watch what the statement of the President of the United States with regard to Poland, with regard to gas pipelines or whatever—just watch that board not light up when you get out into the out months and you know the fact that one person can have a tremendous impact on the agricultural economy of this country.

It isn't just a matter of interest rates. It isn't just a matter of getting spending down. It isn't just a matter of getting taxes down. It's what it does to the earning capacity and the production capacity of American agriculture.

This President is a very special person in a very special place at a very special time, but despite that statement on March 22, which was a great statement of policy, there hasn't been anything since then that backs up that policy. The board still isn't lighting up in a positive sense. I went through a half a dozen grain elevators in northwest Minnesota, the heart of wheat country over the past weekend, and I look at $3.50 wheat and I look at $2 barley and I look at $2.33 corn. Those prices are the lowest they have been since the depression. The only thing that's saving anybody is the productivity of the American farmer, the only part of the American economy where you're getting more for your money.

PROBLEMS IN AMERICAN AGRICULTURE

The problem in American agriculture today is that farmers don't get the money up front. When the President came out to Minnesota in early February of this year, and one of the reasons I guess I feel sorry for a President sometimes is that they're somewhat shielded from the reality of what's going on, we had a record snowfall so the route from the airport to the convention center where he was going to speak was in effect a plowed path through several large parking lots on which we had thrown 100 inches of snow up to form snowbanks. So the President didn't see 2,000 people standing out there protesting his budget and so forth, but he did see one sign that somebody was holding up that said, "Make love, not cones." And we were sitting there—my wife and I and Jim Baker and the President—and he turned to us and he said, "What's happening?" And my wife picked it up right away and she said, "I think they're saying don't make any more nuclear weapons, Mr. President." At which time he launched into a very intense discussion of, "Don't the American people know what we're trying to do in terms of nuclear disarmament and arms control and so forth? Doesn't that person with that sign know that the Russians are producing 30 more nuclear missiles every single day" and all this sort of thing.

Well, I hear the reverse of that when I go out to Minnesota: "Doesn't the President know what American agriculture has been putting up with? Doesn't the President know what $2.33 corn for 3 straight years means? Doesn't he know what selling wheat substantially below the cost of production means? Doesn't he hear? Doesn't he know?" So there are really two sides to this question.

We all know the squeaking wheel gets the grease around this place and apparently American agriculture can't squeak loud enough even though it's prevalent in every one of our States. It just maybe isn't squeaking loud enough or maybe the solutions aren't all that clear.

I know how the President feels about Poland. I'm half Polish. I've got relatives in Poland. I know how he feels about Poland, but I correspond with my relatives over there. They're having a disastrous year in Poland this year. There are going to be incredible food problems come this winter in some of the Eastern bloc nations and in the Soviet Union. I think that cries out for a solution and I know all of the other psychological problems and all those other things the President has to put up with, but he's also got to recognize there's human need involved here and we aren't just talking about the American farmer; we're talking about a lot of poor people in the Soviet Union and in the Eastern bloc and lots of other places.

This policy is working against a lot more people than the American farmer and I just hope when he goes out to the corn producers in Des Moines he has something more to say than a 1-year extension of the current long-term loan agreement. I would really hope that the President would take this opportunity, because he's heard from enough of us—even Larry Pressler took time out the day before his wedding to go down and talk to the President about this.

I would hope he would take that opportunity to say, "We'll fight the gas pipeline on its terms and we'll handle nuclear disarmament on its terms and we'll handle the Polish and that undying desire for freedom of the Polish people on their terms, but we will face up to the reality of marketing of American agricultural products by adopting, in effect, endorsing one of our pieces of our legislation, coming down here and telling us that somewhere between S. 2357 and S. 2410 is the answer to the problem, and urging us to put it into law."

Nobody likes the subsidized approach to this problem and everybody that I represent in farming and agriculture in my State wants to get away from protectionism, wants to get away from subsidization. The way you do that is to let the productivity of American agriculture loose on this world. If we had an agricultural or a brain cartel operating in this world, then you might be able to have embargoes as some kind of policy. That cartel hasn't worked; it doesn't exist; it isn't going to work. It's been proved time after time after time. And we are the ones that are always called on to suffer because of it.

So I congratulate you, Senator Lugar, for your initiatives in this area. I thank you for encouraging the chairman of this subcommittee to hold these hearings. I hope that at the conclusion of these hearings you'll urge the chairman of the full committee to mark up a bill and that we can get it out on the floor so that we can honor the sanctity of contracts that are the salvation not only of American agriculture but of the American people and of human beings all over this world. Thank you.

[Committee insert of complete statement follows:]

STATEMENT OF SENATOR DAVE DURENBERGER

Mr. Chairman, before I go further, let me express my thanks to you for pulling together this hearing and these distinguished panelists.

Because of pressing business in the Finance Committee, I will be unable to spend as much time here today as I would like. But the shortness of my stay on this panel should not be construed as a lack of interest in the subject matter. To the contrary, I am the sponsor of one of the bills under consideration today and joined Senator Lugar in the introduction of the other. The differences between our two proposals are minor, and I am confident that, with the solid base of information this hearing will provide us, those differences can be resolved.

Today's hearing is a continuation of a process begun March 22, when President Reagan addressed the American Agricultural Editors Association. In his speech that day the President had some good news for America's farmers.

"There will be no more embargoes, except in extreme situations and only when we have the cooperation of other trading nations."

Since that time Senator Dole has introduced a Sense of the Senate Resolution embodying the President's remarks. Senator Lugar and I have both introduced legislation designed to take the President's statement and put some real teeth in it. And today we attempt to solicit the advice and counsel on the proper course of action from the acknowledged experts in the field. As those here might expect, I am partial to S. 2410, the Sanctity of Contract proposal I introduced April 21.

S. 2410 provides a mechanism to restore fairness for American agricultural producers, and to restore international confidence in the United States as a reliable source for foreign feed grain needs. It requires the U.S. Government to honor the sanctity of all agricultural commodity export contracts except during periods of a declared national emergency or war.

The future of American agriculture lies in aggressive market development but a strategy of market development can never succeed with the specter of the Federal Government hovering the market every time it believes food can be used to achieve foreign policy objectives.

Our efforts today should be seen as a sign that this Senator, and the Senate as a whole, rejects that notion.

Adoption of this legislation would not only assure our trading partners that all agricultural commodity export contracts would be honored, except under the most dire circumstances; it would encourage the Soviet Union to buy its feed grain needs on a consistent basis if it wanted to guarantee the delivery of its purchases.

About 2½ years ago, on January 4, 1980, President Carter announced that he would embargo all grain sales to the Soviet Union to punish that country for its invasion of Afghanistan.

At the time President Carter made his announcement, I was traveling around the rural areas of our State. I am sure that my colleagues heard the same message I did. Almost to a person, Minnesota farmers told me how much the grain embargo would hurt, but they were willing to support the action because they wanted to help the country.

Their courage was overwhelming. These were the same farmers who, in the preceding year, 1979, suffered through a drought, a crippling strike at the Duluth Port, railroad failures, and a truckers strike, and 1979 was a year in which prices dropped so low that the results of a year's work lay piled on farms and elevators.

President Carter's embargo did exact its toll on Minnesota farmers. In fact, there is considerable evidence that they are still paying the price. There is no doubt that another embargo would be devastating to an agriculture community that is already devastated by low prices and soaring production costs. While the rest of the country is suffering through a recession, farmers are in a depression.

If anyone has any doubt about that, they should spend some time with me in Minnesota as I travel around our State. Time and again, I hear the same stories: interest rates have dried up the farmers' sources of borrowing, commodity prices in many cases are lower today they they were last year; and production costs keep going up.

That should be reason enough to oppose the use of food as a weapon. But, I know Minnesota farmers. I suspect that if their President called on their patriotism, they would not let him down. They would tighten their belts another notch or two and rally to support their President and their country.

The sad truth, though, is that American farmers have already tightened their belts so much that they are choking. Another embargo may win a battle, but I am afraid we would lose the war by losing the American farmer.

The use of food as a weapon is bad policy. Despite America's immense market power, we simply cannot embargo the world. Competitors such as Brazil, Argentina, and the EEC have the resources to increase production and move into the markets we vacate. We also must recognize the near impossibility of monitoring the actions of those who purchase American grain and pass it through to the embargoed nations.

To put it simply, we do not have an OPEC of grain and the United States cannot go it alone.

Beyond the difficulty of imposing an agricultural embargo, there is a more fundamental reason to oppose the use of food as a weapon. Food embargoes punish people, not the governments whose actions we are trying to change. The success of food embargoes depends on the ability of the people in the embargoed nations to change the attitudes and policies of their government.

Would the voice of a Russian peasant—of even a thousand or a million Russian peasants—be heard in the Kremlin? I doubt it. History has taught us that a totalitarian government will change it policies only when change is in the best interests of the government.

I have held many hearings on the economy in Minnesota. I want to share with this Senate the testimony I received from Jerry Benz, a farmer in Martin County, Minn. Jerry said:

"Our problems seem to stem from the fact we have been encouraged by past administrations and the current administration to produce more and more efficiently and rely less and less on government support. I cannot argue with that position. It can be made to work.

"However, if we are to compete in the free market we have to be allowed a free market. In effect, past administrations and currently the present administration have determined they will use food as a weapon in determining policies. I cannot be expected to raise a crop and compete with world markets if this is going to be the case. If the Government continues to pursue this policy we may be better off removing farm programs from the Department of Agriculture and putting them in the Defense Budget, because that is what we are doing. We are supplying weapons in much the same manner that Lockheed does. They are guaranteed costs plus a per-

cent. If the government is going to continue to pursue this policy of using food as a weapon we should have the same guarantees."

Jerry Benz is painting a detailed picture of the American farmer's situation: The Government tells the farmers to produce as much as possible, but then robs them of their markets.

The American farmers are saying to the Government, "Let us produce freely and let us market freely. If food is to be used as a weapon, then put the farmer in the defense budget and give him the same opportunities and benefits as any other defense contractor."

We know that is not the answer. The answer is simply this: The future of America's farmers is dependent on how well they market their products abroad. Let's get the Government out of their way and let them do that which America has always done best—compete.

Senator LUGAR. Thank you very much, Senator Durenberger, for that eloquent statement.

Before I recognize our distinguished colleague, Senator Boschwitz of Minnesota, let me indicate that Senator Boschwitz serves on the Foreign Relations Committee and the Agriculture Committee and indeed on the latter has been a spear carrier for exports in every capacity that he can contrive, along with Senator Alan Dixon who serves not only on this committee but also on the Agriculture Committee, and has been a champion for exports.

One of the purposes of this hearing will be eventually to get the testimony of expert witnesses, but I would confess that another compelling reason for this hearing is that Senators such as ourselves might communicate with the administration, with the President, with the Secretary of State. Senator Boschwitz, sort of back-to-back, visited with the nominees yesterday for the new incoming people that Secretary Shultz is bringing onboard to assist him and I'm certain we both conveyed the same message which you have so eloquently today.

I was shocked when Secretary Haig in a valedictory comment mentioned that he felt the worst decision President Reagan has made for foreign policy was getting rid of the embargo. This seemed to me to be absolutely incredible as a misreading of world history, quite apart from current policy. I want to make certain in every way that I can—and I'm certain that this is the purpose of your statement today—that our President is not insulated from the thought that there are things abroad in American agriculture and in American foreign policy that must be reconciled, that as far as I can tell from my constituents on most days of the world they couldn't care less about Poland, El Salvadore, the Middle East or anything else, as a matter of fact. We care a great deal about those things and rightly so as a part of our responsibility, but there is not going to be support for American foreign policy in the hinterland of this country unless there is recognition by this administration that we could have $2 corn and still chatter about an embargo, and the use of this situation which is totally inappropriate. That message has got to get through and even if we are tedious and sometimes undiplomatic, so be it.

I hope that we'll have legislation and I will promise to pursue this vigorously as I'm sure we will all pledge to each other to pursue by every way we can the element of getting across this message because the President by administrative fiat can really take care of the entirety of the situation. This need not be an adversary

proceeding. It could be a very cooperative endeavor. So I appreciate the candor of your comments and this has stimulated the response.

I'd like to call now upon the distinguished colleague of yours from Minnesota, Senator Boschwitz.

Senator DIXON. Mr. Chairman, before we hear from our distinguished friend, Senator Boschwitz, may I simply say to my distinguished colleague from Minnesota that I give him the greatest compliment one politician can give another when I say I wish I had said that. Well done.

Senator DURENBERGER. Thank you very much.

STATEMENT OF RUDY BOSCHWITZ, U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Let me say that I have discussed with my senior colleague on a couple of occasions most of the issues, but I learned a couple of things this morning: One, that he, like I, am half Polish and I'm not quite sure about the accuracy of his remarks concerning Senator Pressler. I understand that that was quite a sudden decision and it may be that the day before his wedding he didn't realize it was the day before his wedding. [Laughter.]

Well, that has little to do with agricultural embargoes, but, Mr. Chairman, in your opening statement and the statement of my colleague, Senator Durenberger, and my friend and colleague, Senator Dixon, you have said really what I was going to say about both of our bills that would prevent the kind of cost of agricultural contracts and it would be my hope, Senator Dixon, that you would join our bill as well. Our bill, S. 2410, is very similar to Senator Lugar's bill except it extends the period of time after the consummation of the contract after the writing of the contract 180 days to a year.

There's really little that we in the Congress can do—and I would like to address the agricultural question on a little broader vein than just this particular bill, but there's very little in reality that the Congress can do about agriculture that could exceed the prevention of future embargoes or making such type of action effective.

That is to say, there's little we can do that could exceed the impact we could have on the agricultural community of the passage of your bill, Senator Lugar, or our bill. Yes, we can raise coffee prices. Yes, we can raise loan rates. That has an impact on the world market. It brings about greater world production and therefore has a downward trend on world prices with the result that we probably will wind up storing much larger amounts in this country, we being the repository grainery of the world, and really being the market or being the supplier of last resorts because of our great storage capacity.

If we raise prices through artificial means throughout the world we probably will be storing more. This is not an urban oriented Congress. The result of our storing more is having a larger and more expensive farm program will not be the tolerance that the European farmers experienced but rather it will be an intolerance by a Congress primarily dominated by urban interests and the result will be probably a scuttling of the farm program as we now see efforts being made to scuttle the dairy program which has been

really the program that has provided at least some solace and has provided at least some support for at least one segment of the agricultural community that has not gone through difficult times as a result.

The European community spends between $37 billion and $40 billion a year on its farm support program. This country normally spends somewhere between 10 and 11 percent of that, approximately $4 billion. This year because of the very low farm prices, the cost of the farm program may be somewhat higher.

I so agree with my colleague and so agree with the President in the statement that,"there will be no more embargoes except in extreme situations and only when we have the cooperation of other trading nations." I'm satisfied with that, Mr. Chairman, even though it says "except in extreme situations." I'm satisfied with it principally because of the phrase, "only when we have the cooperation of other trading nations." Other trading nations are not so foolish as to try to embargo fungible items. It simply hasn't worked. When we embargoed in January 1980 the grains being sent to Russia we got some of the other large exporting countries together—Canada, Australia, the European community got together with us—the Argentines, as you know, didn't meet—and these countries who did get together with us said that they would not ship more than the normal amount to the Russians during the term of the embargo.

SOVIET GRAIN IMPORTS INCREASE

What was the normal amount? The Australians who are one of the four major grain exporting countries found that the normal amount after the embargo was in that single year they should ship more than they had in the 4 preceding years combined. So it was in the other countries too. Everybody picked up their exports.

The Soviets in 1981 imported 38 million metric tons. They didn't import 40 or 42 because their ports couldn't handle it. They fully met their needs. Their imports went up and they were able to meet the needs that they would have otherwise have met from us.

We went from supplying somewhere between two-thirds and 75 percent of their needs at the time their needs weren't that particularly great to about 25 percent and now we're up to about 30 percent of their needs.

Mr. Chairman, you have mentioned the remarks of Secretary Haig upon leaving. During his tenure he made the remark that after a good deal of discussion before our committee, with me, with yourself, with others—the Secretary of State said, and I quote Secretary Haig.

> An embargo would not influence and affect the Soviet Union one bit. It might indeed provide even lower prices for grain than they the Soviets would get otherwise and it would be an unjustified punishment to the American farmer without any payoff.

Indeed, there's sufficient evidence, Mr. Chairman, that after the embargo prices fell and that the Soviets were able to replace American contracts with lower priced contracts from throughout the rest of the world and the American Government had to pay back the grain traders who had their contracts cancelled.

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The Secretary of State continued by saying, "The President has made it very, very clear that unilateral selected embargo of American grain would not be undertaken." And as you mentioned, Mr. Chairman, and I believe the Senator from Illinois mentioned, we passed legislation that emanated from our Agriculture Committee which would make such a unilateral or selected embargo something that no longer could occur.

This bill that you have introduced, Mr. Chairman, the bill that Senator Durenberger and I have introduced, to prevent the cutting across of contracts is a very valuable thing, that we can once again become a supportable, a reliable supplier of goods. That we once again can get the markets that we indeed can support this country with.

Agricultural exports, as the Senator from Illinois mentioned, are an enormous source of income to this country. In the last year exports were approximately $42 or $43 billion. For the first time in many years the dollar amount went down slightly, though the export in tonnage went up, but that's a reflection of the prices. The imports, on the other hand, were about $16 or $17 billion so we had a trade surplus of $26 billion approximately which has done this economy an enormous amount of good. We can improve that situation and improve the economic health of the rural parts of this country. Mr. Chairman, I so firmly believe that the economic health of our entire country is rooted in the earth, rooted in the farms of the United States from which my colleague from Minnesota has noted such great productivity has arisen.

So I am so pleased to be here this morning and be in support of your bill, Senator Lugar, and be in support of the Senator from Illinois, Senator Dixon, who supports your bill. I cosponsored it even though we entered a bill slightly different. I look forward to this bill coming before the Senate during this session so that we can pass it and speak out to the world and speak out to our trading community not only here in the United States but throughout the world that we are indeed going to be a reliable source of supply, that we indeed are going to do the pragmatic thing, and help the economy of our country.

SELL ANYTHING THAT CAN'T SHOOT BACK

Let me close, Mr. Chairman, by saying the words of my predecessor, Hubert Humphrey, "That to the Russians we should sell them anything they can't shoot back at us." While that might be a cute phrase, nevertheless, there's a great deal of truth in it. We don't sell these goods to the Russians on credit. We sell it to them for hard currency. If they must use their hard currency to buy fungible goods, consumable goods, that they must replace year after year, they certainly will have less to do mischief with throughout the rest of the world.

So I hail you, Senator Lugar and Senator Dixon, and hope that there's useful and appropriate piece of legislation will see the light of day in this Congress and that we can get it passed.

Senator DIXON. Mr. Chairman, may I quickly say only two things to my distinguished colleague. First of all, the failure to sponsor his bill is a total inadvertence and I would be honored to join my dis-

tinguished friend from Minnesota on S. 2410. And further, may I observe, Mr. Chairman, the outstanding work that the Senator from Minnesota, Mr. Boschwitz, has done in chairing the Subcommittee of the Agriculture Committee devoted to the whole question of exports. I attended all of those meetings with him. They were tremendously important and informative meetings and he should be richly congratulated for the contributions he made to the agricultural community in this country and I thank him very much for his very valuable contribution this morning.

Senator LUGAR. I join that commendation. We are grateful to you for your testimony this morning.

Senator BOSCHWITZ. Thank you very much.

Senator LUGAR. The Chair will now call the farm panel and as I call the names will each of these witnesses please come to the table. Bruce Hawley, assistant director, American Farm Bureau Federation; Donald E. Henderson, Indiana Farm Bureau, Inc.; Charles Hamon, president, American Soybean Association, Valley Falls, Kans.; accompanied by John Baize, director of government affairs, American Soybean Association; Russell Arndt, former president, National Corn Growers Association, La Crosse, Ind.; accompanied by Michael Hall, director of governmental affairs, National Corn Growers Association; Donald Loeslie, vice president, National Association of Wheat Growers, Warren, Minn.; accompanied by Carl Swensen, director of governmental affairs, National Association of Wheat Growers.

Gentlemen, we appreciate your assembling here this morning. You're a very distinguished panel indeed. I appreciate receiving, as I know Senator Dixon and other members of the committee have, statements which some of you prepared already.

As a part of the ground rules for this hearing, I hope that it will be acceptable to you that all prepared statements will be made a part of the record in full so that we will have for the full reading of all the Senators and the public. If each of you could confine your remarks to 5 minutes and no more than hopefully 6 or 7 if you're carried away with eloquence at this hearing, that would be helpful because then we will have more time for questions and some interaction with the panel and some contrasting of ideas if there are those ideas.

I know it is difficult to make those sorts of summaries on complex issues, but with assurance that all that you have written and prepared will be a part of the record, if you could do this, we would appreciate it.

Let me first call upon Mr. Bruce Hawley, Assistant Director of the American Farm Bureau Federation.

STATEMENT OF BRUCE HAWLEY, ASSISTANT DIRECTOR, AMERICAN FARM BUREAU FEDERATION

Mr. HAWLEY. Thank you, Senator, and good morning. We will summarize our comments and we can be quite brief.

We certainly would in no sense attempt to compete with the eloquence that has preceded us.

Senator LUGAR. You're most generous.

Mr. HAWLEY. The American Farm Bureau Federation represents over 3 million member families across the country. We are the voice of production agriculture. Our members are the producers of the commodities that the members have been discussing. When the Government embargoes grain sales, it is not the Government's grain that is being embargoed; it is our grain; it is our labor; it is our opportunity to make a profit that is being embargoed.

Within the past few months, the Farm Bureau has organized tours of about 25 members each that we have sent to Japan and to the European community to discuss our interest in further trade with those countries.

UNRELIABILITY OF THE AMERICAN FARMER

Consistently in our discussions with those nations, with the Japanese and with the European community, the issue of the unreliability of the American farmer as a supplier of agricultural commodities is raised.

We are somewhat frustrated in trying to decide how to emphasize strongly enough our feeling that this legislation must be enacted. The opportunity for the Congress of the United States to make a positive statement on behalf of our Government and to our trading partners, on behalf of our farmers, that the United States will honor contracts that it has entered into with other people, that we will maintain a sanctity of contracts—the importance of that commitment is so great. We have within the past decade suffered significant penalties because of the multiple embargoes that have been imposed.

In 1970, the United States controlled approximately 95 percent of the total world export market on soybean and soybean products. In 1981, that number declined to 59 percent. The decline in the U.S. share of market is directly traceable to the lesson that we have taught other countries that they cannot consistently depend upon the United States as a source of food or fiber in their country.

The American farmer has earned and enjoys the reputation of being honest and hard working and reliable. The repeated actions of the Federal Government have given us a reputation in the international community that is somewhat beneath that of an unreliable used car dealer.

We think it's time for the Government to accept its responsibility to remove the tarnish that it's put upon the reputation of the farmers as a reliable supplier and trader.

Senator Boschwitz closed with a quote from Senator Hubert Humphrey. I also would like to reference a comment once made by Senator Hubert Humphrey. I paraphrase. He said something to the effect that Congress would rather swim a mile through rusty razor blades than walk one step ahead of public opinion.

Senator, I can speak to you without qualification about the public opinion in the agricultural community. It is time for the Government to make a statutory commitment that it will not interfere further with the export of agricultural commodities.

We are pleased to testify today in support of the legislation that you have introduced, S. 2357. We appreciate the efforts you have

made to secure its passage and we will support it fully. Thank you, sir.

[Complete statement follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION REGARDING THE SANCTITY OF AGRICULTURAL EXPORT CONTRACTS PRESENTED BY BRUCE R. HAWLEY, ASSISTANT DIRECTOR, WASHINGTON OFFICE

The American Farm Bureau Federation, representing more than three million member families, appreciates this opportunity to express its support for S. 2357, which would improve the U.S. image as a reliable supplier of agricultural commodities and products.

First, how did our image get tarnished? Our image as a reliable supplier of farm products to world markets first suffered when soybean export sales were suspended for domestic reasons in 1973. Each subsequent restriction or embargo has added to our problem.

The adverse effects of grain embargoes are many. We do not wish to attempt to analyze here the soybean moratorium of 1973, nor the embargo of farm products to the Soviet Union in 1980. The cost of these actions to the American farmer has been analyzed both within government and privately. We do, however, wish to stress that virtually all of these studies point out that trade restrictions and embargoes have caused a shifting in world trade patterns and production to the detriment of the American farmer. These shifts to alternate supply sources by our overseas customers have placed the American farmer, who is so dependent upon export markets, in serious jeopardy. Some of the farm income problems being experienced today by American farmers can be directly attributed to past governmental restrictions on exports which have caused foreign buyers to diversify their supply sources.

OUR IMAGE IN JAPAN

Recently a group of State Farm Bureau Presidents led by Robert B. Delano, President of the American Farm Bureau Federation, went to Japan in an effort to get the Japanese Government to liberalize their import policies. The group was immediately confronted by representatives of Japanese farm and agricultural cooperative interests, who are devoting a great deal of effort and money to convince the Japanese Government and consumers that their agriculture must be protected because America is not a dependable reliable supplier of their food needs.

The protectionist interests in Japan use the soybean embargo action of 1973 to illustrate that the United States is not a reliable supplier. They point out to Japanese consumers that this embargo was put in place without regard to their food needs. They further call attention to the fact that prices of Tofu, a basic soybean product in the Japanese diet, doubled in price subsequent to the U.S. embargo action. In spite of counter arguments, we're afraid that Japanese consumers are readily influenced by these protectionist arguments. Thus, almost ten years after the soybean embargo we are arguing with protectionists in Japan over our reliability as a supplier. Knowing the fears of their people, some of whom have experienced hunger, we're afraid that these protectionists arguments may be convincing enough to prevent trade liberalization.

OUR IMAGE IN EUROPE

President Delano also led a group of State Farm Bureau Presidents to the European Community to give support to the Administration's efforts to resolve problems between our country and the European Community over export subsidies and other trade matters. Certain European officials have countered our arguments for corrective trade actions by saying that the U.S. problem in export markets is not EC export subsidies but, rather, the U.S. reputation as an unreliable supplier. Consequently, they argue that importing countries are lining up supplies from diverse sources. While we cannot let the European Community off the hook with those arguments, it is an argument that we have to counter.

These are two examples of how major trading partners are using our tarnished image as a reliable supplier against us. There are many other examples. However, these two are sufficient to illustrate how important it is that constructive steps be taken to provide to our foreign customers that the U.S. is now a reliable supplier of the agricultural commodities and products they need.

It takes actions instead of words to convince the skeptics of the world that indeed we are a reliable supplier. Our image was improved in April of 1981, when Presi-

dent Reagan removed the restrictions that had been placed on sales of grain and other agricultural commodities to the Soviet Union. Yet, as we have illustrated, skepticism still remains and it is obvious that the Soviet Union and others have shifted some of their purchases to alternate sources as a hedge against future embargoes.

Farm Bureau believes that a substantive action is needed to improve our image and help silence the skeptics. We believe that it is important for any purchaser of U.S. commodities to have assurance that his purchases will be delivered without interference or disruption by the U.S. government. This assurance, so essential to restoring our image as a reliable supplier, can be officially mandated by enactment of legislation such as that proposed by Senator Lugar in S. 2357.

This legislation is a must if we are to ever have an image as a reliable supplier in order to maintain and expand the U.S. share of world grain trade. This bill will preserve the sanctity of a contract. Farm Bureau strongly supports Congressional effort to improve the United States' position in world markets for agricultural products by passage of "sanctity of contract" legislation.

Senator LUGAR. Thank you very much, sir.

I would like to recognize now Mr. Donald E. Henderson of the Indiana Farm Bureau, Inc. For those of you who would suspect this is the case, he's a very dear friend and I'm most grateful you're here this morning, Don.

STATEMENT OF DONALD E. HENDERSON, INDIANA FARM BUREAU, INC., INDIANAPOLIS

Mr. HENDERSON. Thank you, Senator. I am Donald E. Henderson, director of national affairs for the Indiana Farm Bureau. I'm also a member of a family owned grain farm in Madison County, Ind.

In addition to the comments by the American Farm Bureau Federation which we do fully support, President Stackhouse of our organization wishes me to convey to the committee our appreciation of your continued efforts on behalf of farmers to reestablish our role as a primary supplier of agricultural products in foreign trade channels. We feel that passage of S. 2357 is a key factor in reestablishing our full export potential. Our recent Farm Bureau trade delegations to Japan, of which President Stackhouse was a member, and the European Economic Community found leaders in those countries still expressing feelings of mistrust concerning our reliability as a supplier. From this, it is apparent to us that efforts to increase sales alone, both in and out of Government, are not enough to turn our poor delivery image around.

Only by hard evidence, such as S. 2357 that we will honor our sales commitments, can this credibility be reestablished.

As long as there is the slightest indication in foreign countries that we will use food as a foreign policy weapon we will continue to be the world's storage bins with purchases being made from us only when their needs cannot be met elsewhere.

We in agriculture have no objections to fighting a trade war, but with the exception of a military confrontation, a trade war is fought by trading, not by withdrawing from the market.

Hopefully, our tremendous agricultural efficiency and capacity will again be used to reduce our trade deficit, reestablish our dominance in world food markets, and show foreign buyers that along with being the best and most efficient food producers we are also the most reliable. We feel S. 2357 introduced by you is an important part of that effort. Thank you.

[Complete statement follows:]

STATEMENT OF THE INDIANA FARM BUREAU REGARDING THE SANCTITY OF AGRICULTURAL EXPORT CONTRACTS, PRESENTED BY DONALD E. HENDERSON, DIRECTOR, NATIONAL AFFAIRS DIVISION

Mr. Chairman, I am Donald E. Henderson, Director of National Affairs for the Indiana Farm Bureau with over 255,000 members and a member of a family owned grain farm from Madison County, Ind.

In addition to the comments made by the American Farm Bureau Federation, which we fully support, President Stackhouse wishes me to convey to the Committee our appreciation of your continued efforts on behalf of farmers to reestablish our role as a primary supplier of agricultural products in foreign trade channels. We feel that passage of S. 2357 is a key factor in reestablishing our full export potential. Our recent Farm Bureau trade delegations to Japan and the European Community found leaders in those countries still expressing feelings of mistrust concerning our reliability as a supplier. From this it is apparent to us that efforts to increase sales alone, both in and out of government, are not enough to turn our poor delivery image around.

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Hopefully our tremendous agricultural efficiency and capacity will again be used to reduce our trade deficit, reestablish our dominance in world food markets and show foreign buyers that along with being the best and most efficient food producers we are also the most reliable. We feel S. 2357 introduced by Senator Lugar is an important part in that effort.

Senator LUGAR. Thank you very much, Mr. Henderson.

I'd like to call now upon Mr. Charles Hamon, president of the American Soybean Association from Valley Falls, Kans.

STATEMENT OF CHARLES HAMON, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, VALLEY FALLS, KANS., ACCOMPANIED BY JOHN BAIZE, WASHINGTON PROGRAM MANAGER, AMERICAN SOYBEAN ASSOCIATION

Mr. HAMON. Thank you, Senator. I'm Charles Hamon, a farmer from Valley Falls, Kans. I produce soybeans, wheat, corn, and a livestock operation, and I'm proud to be a farmer. I had a little bit of frustration this week. I'm sure many of you have read the article that came out in Monday's Wall Street Journal stating that a State Department official looked at the U.S. Department of Agriculture as a greater enemy than the Russians. It disturbed me very much and it's something I think we all should be aware of.

In spite of my frustration with this article, I'm pleased to offer ASA's comments and unqualified support for legislation providing sanctity for commercial export contracts for agricultural commodities. In view of the current attitude of the U.S. State and Defense Departments, we urge swift congressional passage.

[The complete statement follows:]

TESTIMONY OF CHARLES E. HAMON, PRESIDENT OF THE AMERICAN SOYBEAN ASSOCIATION

I am Charles Hamon, a farmer from Valley Falls, Kansas where I produce soybeans, wheat, corn and cattle. I appear here today in my capacity as President of the American Soybean Association. ASA is pleased to offer its comments and unqualified support for legislation providing sanctity for commercial export contracts for agricultural commodities and urge its swift passage by the Congress.

The American Soybean Association is a national, volunteer, nonprofit, producer-controlled, single commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and is supported by over 500,000 soybean producers who voluntarily invest in ASA programs through 23 separate statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

From ASA's vantage point, it's unfortunate that this hearing on legislation to provide contract guarantees to our foreign buyers should have to be held at all. One of the traditions of American agriculture from the farmer through the exporter is trust and dedication to meeting one's obligations. When farmers agree to deliver a commodity in the future at an agreed upon price, they do it even if the price is higher at the time of delivery. Without trust, the U.S. agricultural system would certainly be less efficient.

Unfortunately, the willingness of our foreign customers to trust the U.S. as a reliable supplier of food and fiber is at an all time low as a result of the disastrous embargoes of 1973, 1975, and 1980. The U.S. has vividly shown the world that it is quick to use embargoes as a tool of foreign policy or to solve domestic political problems with little regard to the needs of our foreign buyers or our long-term reputation as a reliable supplier. Most important to ASA is the fact that these embargoes have cost soybean producers billions of dollars in lost income and will continue to do so for years to come even if we never have another embargo.

A look at the effects of two past embargoes on our industry is worthwhile. In 1973, President Nixon ordered an export ban on soybean sales because of low U.S. stocks and rising domestic prices. The order resulted in the cancellation of outstanding export contracts with Japan and Europe and brought about a precipitous drop in U.S. soybean prices. The Japanese and Europeans reacted with predictable outrage that the U.S. would cut off their essential soybean imports. The Japanese, in particular, were shocked into renewed concern with their own food dependence on the rest of the world and began placing greater emphasis on their own food self-sufficiency. Probably no action has been as responsible for the current Japanese recalcitrance on lowering its food import restrictions as was the 1973 U.S. soybean embargo.

Most disastrous to U.S. soybean growers has been the growth in Brazilian soybean production brought about by the 1973 embargo. Bolstered by heavy Japanese and European investments in the wake of the embargo, the Brazilians increased their soybean production from only 5.0 million metric tons in 1972–1973 to 11.227 million metric tons in the 1975–1976 crop year. In 1981, the Brazilian crop reached 15.5 million metric tons, over three times its pre-embargo level. Obviously such an expansion of production is cutting into potential U.S. sales and costing U.S. soybean producers millions each year. Unfortunately, our own government must claim a large share of the blame for bringing it about.

We all know how disastrous the 1980 Soviet embargo has been to American agriculture. In 1979, the Soviets were our fifth largest soybean market purchasing almost two million metric tons of soybeans and soybean products. This year, our sales to the Soviets are only 700,000 metric tons, about a third of the pre-embargo level. Our competitors in Brazil and Argentina are supplying the remainder of the Soviets' soybean needs and we see little chance U.S. soybean and soybean product exports will reach their pre-embargo level in the near future. We just lost the Soviet market; more correctly, gave it to our competitors.

While the long-term effects of embargoes surely outweigh their immediate costs, it is also important not to forget what happens at the time of an embargo. In the case of the Carter embargo the immediate impact was not because we could no longer sell to the Soviets, but the fact that we could not ship what had already been sold. The result was 17 million metric tons of previously sold wheat and corn and over 1.3 million tons of soybeans and soybean products being thrust back on the U.S. market. Of course, the Soviet sales had already been accounted for in the market. With the embargo the trade had to account for the contract cancellations and price fell precipitously. We estimate soybean producers immediately lost over $1 billion in inventory value which was never recovered. The losses for wheat and corn producers, obviously were even greater.

Short of a U.S. policy to never impose an export embargo in the future, ASA believes the best alternative is for the Congress to adopt legislation forbidding the President from cancelling previously reported outstanding commercial export contracts for agricultural commodities except under the most dire circumstances. In March, the ASA Board of Directors unanimously approved a proposal calling for the following:

1. TRADE WITH MOST FAVORED NATIONS (MFN)

The U.S. should formally notify all nations which the U.S. has granted M.F.N. trading status that once they have purchased any agricultural commodity, and the sale is reported to USDA, the U.S. Government will honor the commercial contract regardless of when it is to be delivered. The only exception would be after a declared national emergency or declaration of war where the export of the commodity would undermine the national security of the U.S.

2. TRADE WITH THE U.S.S.R. AND OTHER NON-MFN NATIONS

In the case of the U.S.S.R. and other non-MFN nations, the U.S. should seek to sign an agreement providing that the U.S. Government will honor any and all future commercial contracts where delivery is to take place within six months. Sales could still be made for delivery more than six months in the future, but the U.S. would not guarantee to honor the contract until the delivery date is six months or less in the future. However, the U.S.S.R. and other non-MFN nations would have to agree to actually take delivery on all commodities they have contracted to purchase from the U.S. Of course, the U.S. would indicate no contracts would be guaranteed in the event of a declared national emergency or after a declaration of war where the export of the commodity would undermine U.S. national security.

We are pleased that in response to our request for contract sanctity legislation that Senator Lugar has introduced S. 2357 and Senator Durenberger has introduced S. 2410. While each bill differs significantly from the original ASA request we believe either bill would accomplish much of what we believe is necessary to protect American farmers from financial loss resulting from export embargoes and help to restore the U.S. reputation as a reliable supplier. We thank Senator Lugar and Senator Durenberger for their leadership on this issue as well as those who have cosponsored their legislation.

While ASA's original contract sanctity proposal called for a six-month moving time limit on export contract sanctity, we are now of the opinion that a nine-month period is more in line with the purchasing practices of our foreign customers. However, we certainly will not oppose legislation including an unlimited time guarantee or the six-month guarantee included in the Lugar bill.

We believe contract sanctity legislation will accomplish many important objectives including the following:

(1) All nations would be assured that when they contract to purchase U.S. commodities they will get what they have bought.

(2) The U.S. would regain its position as a reliable supplier.

(3) Foreign nations will have incentive to purchase grain on a regular basis in order to have their contracts reported to USDA and thus protected against cancellation.

(4) In the event of a future embargo little previously sold grain would be dumped back on the U.S. market.

(5) The period between when an embargo is announced and the time when guaranteed contracts are shipped would serve as a cooling off period for the U.S. and the embargoed nation to settle their differences.

(6) The period between the announcement of an embargo and the shipment of all guaranteed contracts would provide U.S. exporters an opportunity to line up new customers.

In conclusion, Mr. Chairman, the American Soybean Association hopes that U.S. farmers will never see another export embargo. We believe we have paid too much already. However, if the time should come when another embargo is announced, we only hope an export contract sanctity statute can be made a part of the U.S. Code so that the effects of the embargo on U.S. farmers will be held to a minimum. ASA urges the Senate to approve S. 2357, S. 2410, or similar legislation as expeditiously as possible so that we may again feel confident that what we have sold is really sold and so our foreign buyers will know they will receive the commodities they have contracted to purchase.

Thank you.

Senator LUGAR. Thank you very much, Mr. Hamon. I've noted already you're accompanied today by Mr. John Baize and we welcome you, Mr. Baize.

I shall call now upon Mr. Russell Arndt, the former president of the National Corn Growers Association, La Crosse, Ind. It's great to have you here this morning.

STATEMENT OF RUSSELL ARNDT, FORMER PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, LA CROSSE, IND., ACCOMPANIED BY MICHAEL HALL, DIRECTOR OF GOVERNMENTAL AFFAIRS, NATIONAL CORN GROWERS ASSOCIATION

Mr. ARNDT. Thank you, Senator. I am a corn, soybean, and wheat farmer from La Crosse, Ind., a member of the National Corn Growers Board, past president as you have mentioned, and it is in that capacity that I'm here today and I have with me our Washington representative, Mr. Michael Hall.

I would like to just skip through the testimony that we have submitted for the record and I have one additional document that I would also like to submit to be made a part of the record.

Senator LUGAR. It will be made a part of the record.

QUESTIONS ASSUMING THAT S. 2357 PASSES

Mr. ARNDT. I would like to first begin with a few questions concerning the assumption that the bill would be passed and the climate that we would then be operating in and I guess one of the first questions is, what signal do we send out to other nations and to other industries in our Government. Is that a signal that embargoes are OK but only if you let us go ahead and deliver what's been sold for 6 months? Is this what we are really saying, or are we also saying, no, no, no to embargoes and we will deliver?

My second question concerns the impact of this bill on the futures market itself. Will this concentrate trading only on the 6 nearby months and leave trading as the traders call it "very thin" in the distant months. Now to some people obviously this doesn't mean very much, but to me as a farmer, we have a policy of selling some of our grain early in the year. We sold last year a little bit in December already for this year for November which obviously is an 11-month commitment on our part.

This gives us an opportunity to plan some in the farming operation, to make some commitments for expenditures that we could not otherwise make, also some commitments in terms with our agreements with landlords. Now would we then, as a result of this bill, compress this trading into a 6-month period where I would be unsure of my sale in this distant month future? I'm not saying that this would happen. I'm only raising this question. I think it deserves some thought.

Now what happens with this bill in the absence of an agreement with the Soviet Union then? Would they be permitted to buy 15 or 20 million metric tons and would they have to concentrate this all within the 6-month period? And likewise, what would that do to the market and what would be the consumer reaction in this country? Because let's back up a bit to the original thinking of the long-term agreement with the Soviet Union, and it states in that bill that they have to space their purchases and additional purchases above the minimum amount are by consulting with them and so now we're concentrating this back and we're putting more pressure on these markets.

Will we then have the consumers again saying, "You're putting too much pressure on our food bill and here we are not having the stable market that we had before and not knowing how much

they're going to purchase in the distant months." So I think these are some questions.

I guess another question I have—and perhaps I should be thinking only of corn and not of some of the other commodities, but I have to again think about soy oil and perhaps soy meal and some of our byproducts in corn like our corn gluten meal and even some of the other manufactured products—are we saying only basically corn, soybeans, wheat, sorghum, oats, or are we also looking at some of our industrial products within the agricultural community? Should we be striking out the word "agricultural" in this bill, S. 2357?

I guess, given some of these reservations, then I have to again ask, if we had all this in place, does not the President's power still override this—the three things—the case of national security, the foreign policy interest, and the short-term supply provision that we have for him, does not this still override all of this even the 6-month thing if he feels that he should do it because really these powers are given to him under the constitutional authority to conduct foreign policy.

And I'm not an attorney and I don't study Federal law. I can tell you better what fertilizer goes on the back 40, but I think the situation deserves somebody's attention for a period of time.

I think we also have to piece into this and understand that this is not in competition with the negotiating of a long-term agreement with the Soviet Union, and here I'd like to make our position clear as National Corn Growers that we feel that in this particular case because it is a unique market and because of the long-range planning of the Soviet Union and their planning for food supply for their people, that a long-term agreement is essential in this area. But we were not in agreement that all other countries that come along with their hands out should be written out a long-term agreement. We feel that many of these others that have been negotiated could very well have been taken care of in the regular market.

So we think that the efforts that you're putting forth to have sanctity of contracts are complementary to also the negotiation of a long-term agreement.

Despite the questions that I have raised here, it is the position of the National Corn Growers Board that we would like to see a long-term agreement negotiated and we also support your bill. Of course, if we had the best of all worlds, we would say, whatever the contract length is—if this is a 6-month contract, if it's a duly legal contract, then it's delivered. If it's a 7-month, it's delivered and so forth. But in the absence of that being possible, then we certainly would like to support this bill.

I'd like to skip through some history that we have here concerning long-term agreements. At this point I would like to ask that we insert in the record this study that was made for the Corn Growers by Schnittker Associates concerning the impact upon the U.S. economy of the embargo that we had placed on the farm commodities in 1980 by President Carter.

Senator LUGAR. It will be made a part of the record.

[Complete statement of Mr. Arndt and copy of the study referred to follow:]

NATIONAL CORN GROWERS ASSOCIATION

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SANCTITY OF CONTRACTS & US-USSR GRAIN AGREEMENT

BY

RUSSELL ARNDT
IMMEDIATE PAST PRESIDENT
NATIONAL CORN GROWERS ASSOCIATION

BEFORE

THE SUBCOMMITTEE ON INTERNATIONAL FINANCE & MONETARY POLICY

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

UNITED STATES SENATE

ON

JULY 29, 1982

I AM RUSSELL ARNDT, A CORN AND SOYBEAN FARMER FROM LACROSSE, INDIANA, AND SERVE ON THE BOARD OF DIRECTORS OF THE NATIONAL CORN GROWERS ASSOCIATION FROM THE STATE OF INDIANA. I APPEAR HERE TODAY AS THE IMMEDIATE PAST PRESIDENT OF THE NATIONAL CORN GROWERS ASSOCIATION. WITH ME TODAY IS MICHAEL L. HALL, WHO REPRESENTS OUR ASSOCIATION IN WASHINGTON, D.C. WE APPRECIATE HAVING THIS OPPORTUNITY TO PARTICIPATE IN THIS HEARING TODAY, AND TO EXPRESS OUR

SUPPORT OF U.S. CORN FARMERS FOR S.2357 -- A BILL TO PROHIBIT EXPORT RESTRICTIONS THAT INTERFERE WITH EXISTING CONTRACTS FOR THE EXPORTATION OF SUCH COMMODITIES.

MEMBERS OF OUR ORGANIZATION DEPLORE THE PAST ABOUT THE CONDITIONS AND CIRCUMSTANCES THAT REQUIRE A LEGISLATIVE EFFORT TO INSURE THE SANCTITY OF AN EXPORT CONTRACT FOR ONE HUNDRED AND EIGHTY DAYS -- IF RESTRICTIONS, QUALIFICATIONS OR EMBARGOES ARE AGAIN IMPOSED ON AGRICULTURAL EXPORTS. MOREOVER, OFFICIALS OF ALL ENTITIES OF THE FEDERAL GOVERNMENT -- PARTICULARLY THE CONGRESS AND THE EXECUTIVE -- TELL U.S. FARMERS ABOUT THE FINANCIAL IMPORTANCE AND ECONOMIC SIGNIFICANCE OF AGRICULTURAL EXPORTS TO THE U.S. AGRICULTURAL AND GENERAL ECONOMY. BUT S.2357 DELINEATES THAT "IMPORTANCE" AND "SIGNIFICANCE" TO ONLY A "SIX MONTH PERIOD." AND CONSEQUENTLY, THE IMPLICATIONS OF S.2357 ARE THAT RESTRICTIONS, QUALIFICATIONS OR EMBARGOES ARE ACCEPTABLE, PROVIDED THAT EXPORT CONTRACTS FOR THE NEXT SIX MONTHS ARE ALLOWED TO BE EXECUTED. THEREFORE, WE WOULD SUGGEST THAT S.2357 BE FRAMED WITH LEGISLATIVE LANGUAGE THAT WOULD PREVENT THE FORCED CANCELLATION OF EXPORT CONTRACTS BY THE FEDERAL GOVERNMENT IN ALL CIRCUMSTANCES SHORT OF A DECLARED STATE OF BELLIGERENCY WITH A FOREIGN COUNTRY.

PRESIDENT CARTER'S SELECTIVE EMBARGO ON CORN AND WHEAT AND TOTAL EMBARGO ON OTHER COMMODITIES TO THE SOVIET UNION WERE PUT IN PLACE ON JANUARY 4, 1980, AND WERE LIFTED BY PRESIDENT REAGAN ON APRIL 24, 1981. IF S.2357 HAD BEEN THE LAW ON JANUARY 4, 1980, WHAT VOLUME OF

THE MORE THAN SEVENTEEN MILLION TONS OF U.S. GRAIN EXPORT CONTRACTS WOULD HAVE BEEN EXECUTED DURING THE SIX MONTH PERIOD FOLLOWING JANUARY 4, 1980?

WOULD S.2357 PROVIDE A SIGNAL TO FOREIGN BUYERS OF U.S. AGRICULTURAL COMMODITIES THAT CONTRACTS FOR PURCHASES FOR EXPORT FROM THE UNITED STATES MAY ONLY BE VALID FOR A SIX MONTH PERIOD? IF THIS IS TRUE, WHAT EFFECT WILL S.2357 HAVE ON CASH AND FUTURES PRICES FOR CORN AND OTHER AGRICULTURAL COMMODITIES? IF S.2357 WERE TO BE ENACTED INTO LAW, WOULD IT ALSO SEND A SIGNAL THAT FUTURES TRADING OF U.S. COMMODITIES -- HEDGERS, PROCESSORS AND SPECULATORS -- WOULD ONLY BE FINANCIALLY VIABLE FOR THE NEXT SIX MONTHS? WHAT EFFECT WOULD SUCH A SIGNAL PROVIDE TO THE COMMODITY FUTURES MARKET, WHICH SERVES AS THE GENUINE PRICE DISCOVERY MECHANISM FOR THE VALUE OF A SPECIFIED UNIT OF A COMMODITY?

IF S.2357 WERE ENACTED INTO LAW, AND IN THE ABSENCE OF A US-USSR GRAIN AGREEMENT, WOULD THE SOVIET UNION BE ASSURED THE U.S. GOVERNMENT WOULD PERMIT THE PURCHASE OF -- SAY, FIFTEEN TO TWENTY MILLION TONS OF CORN AND WHEAT -- FOR SHIPMENT IN 1982/83? IF THIS WERE THE CASE, WHAT WOULD BE THE DEGREE OF PRICE VOLATILITY IN THE GRAIN FUTURES MARKETS DURING THE TRADING CONTRACT MONTHS OF SEPTEMBER AND DECEMBER 1982 FOR CORN AND WHEAT, AND THE CONTRACT MONTHS OF AUGUST, SEPTEMBER AND NOVEMBER 1982 AND JANUARY 1983 FOR SOYBEANS?

WOULD S.2357 PROVIDE A SIGNAL TO FOREIGN BUYERS OF U.S. CORN AND AGRICULTURAL COMMODITIES THAT THE REPUTATION OF THE UNITED STATES AS A "RELIABLE SUPPLIER" IS VALID FOR THE NEXT SIX MONTHS? WHAT WOULD BE THE VALUE OF S.2357 FOR FOREIGN COMPETITORS OF THE UNITED STATES TO USE IN PERSUADING FOREIGN BUYERS TO SIGN UP LONG-TERM AGREEMENTS? DOES IT NOT SEEM LOGICAL THAT CANADA, ARGENTINA OR OTHER EXPORTING COUNTRIES WOULD ARGUE THAT EXPORTABLE SUPPLIES FROM THE UNITED STATES CAN NOT BE ASSURED MORE THAN SIX MONTHS?

S.2357 ONLY ADDRESSES THE ISSUE OF AGRICULTURAL EXPORT CONTRACTS. WHY SHOULD THERE BE AN ATTEMPT TO REDRESS AND PROVIDE ASSURANCE THAT THE REPUTATION OF THE UNITED STATES SHOULD BE AS A "RELIABLE SUPPLIER" FOR ONLY A SIX MONTH PERIOD AND FOR ONLY AGRICULTURAL EXPORT COMMODITIES? INTERNATIONAL TRADE IS INDIVISIBLE, AND MUST BE MOVED IN A VEHICLE FOR THE MUTUAL EXCHANGE OF VALUE ON A "TWO-WAY STREET." IT MAY BE USEFUL TO ASK ALSO, WHY NOT STRIKE THE WORD "AGRICULTURAL" IN S.2357 FOR THE SAKE OF ALL SECTORS OF U.S. EXPORT TRADE?

S.2357 WAS INTRODUCED IN THIS COMMITTEE OF THE U.S. SENATE AS A MEASURE TO PROVIDE SOME SHORT-TERM CONFIDENCE IN THE INTEGRITY OF AN EXPORT CONTRACT TO BOTH SELLER AND BUYER OF U.S. AGRICULTURAL EXPORT COMMODITIES. MOREOVER, THIS BILL WAS INTRODUCED AS AN ADDITIONAL MEASURE IN LIGHT OF THE PAST UNCERTAINTY OF WHETHER THE 1976 GRAIN AGREEMENT WITH THE SOVIET UNION WOULD BE EXTENDED OR A NEW GRAIN AGREEMENT WITH THE SOVIET UNION WOULD BE NEGOTIATED.

EVEN WITH THE PASSAGE OF S.2357, THE EXTENSION OF THE US-USSR GRAIN AGREEMENT, OR BOTH, WOULD NOT THE PROVISIONS OF THE EXPORT ADMINISTRATION ACT PREVAIL IF A PRESIDENT DECIDED TO RESTRICT, QUALIFY OR EMBARGO GRAINS, OTHER AGRICULTURAL COMMODITIES, PIPE-LINE LAYING EQUIPMENT OR THE CURRENT EFFORT TO EXTEND EXTRATERRI-TORIALITY OF U.S. LAW TO FOREIGN FIRMS UNDER LICENSE TO OR SUB-SIDIARIES OF U.S. FIRMS?

THE EXPORT ADMINISTRATION ACT AUTHORIZES THE PRESIDENT OF THE UNITED STATES TO IMPOSE SUCH U.S. EXPORT TRADE SANCTIONS UNDER ANY OF, OR A COMBINATION OF, THREE CONDITIONS:

(1) IN CASES OF NATIONAL SECURITY TO THE UNITED STATES

(2) FOR U.S. FOREIGN POLICY INTERESTS

(3) IN THE EVENT OF A SHORT SUPPLY OF THE COMMODITY ON WHICH AN EMBARGO IS IMPOSED

MOREOVER, THESE PRESIDENTIAL PREROGATIVES FOR RESTRICTING, CURTAIL-ING OR EMBARGOING U.S. EXPORTS ARE PROVIDED FOR UNDER THE CONSTITU-TIONAL AUTHORITY OF THE PRESIDENT TO CONDUCT FOREIGN POLICY. WHILE THE CONGRESS MAY REVIEW AND PASS JUDGMENT ON PRESIDENTIAL INITIA-TIVES AND DECISIONS IN THE FOREIGN POLICY ARENA, THE ONLY REAL RE-DRESS THAT THE CONGRESS MAY IMPOSE IS TO DENY CONGRESSIONAL APPROVAL OF THE REQUIRED FUNDING TO CONTINUE WITH FOREIGN POLICY INITIATIVES. THIS IS GENUINELY TRUE IN ALL BUT ONE AREA OF THE PRESIDENTIAL PRE-ROGATIVES TO CONDUCT FOREIGN POLICY -- INCLUDING INTERNATIONAL TRADE POLICY -- SHORT OF THE SHARED CONSTITUTIONAL POWER WITH THE CONGRESS TO DECLARE WAR.

OUR ORGANIZATION URGES THE CONTINUATION OF THE LONG-TERM TRADING STRUCTURE FOR GRAINS BETWEEN THE UNITED STATES AND THE SOVIET UNION IN ORDER TO ELIMINATE THE PRESENT UNCERTAINTY ABOUT FUTURE GRAIN TRADING RELATIONS BETWEEN THE TWO COUNTRIES. I WOULD LIKE TO CLARIFY NOW AND EMPHASIZE THAT OUR SUPPORT FOR THE US-USSR GRAIN AGREEMENT DOES NOT SERVE AS A QUALIFIER FOR SIMILAR SUPPORT OF THE CONCEPT OF LONG-TERM TRADE AGREEMENTS. THE NATIONAL CORN GROWERS ASSOCIATION HAS ESTABLISHED POLICY EXPLICITLY EXPRESSING OUR OPPOSITION TO FORMALIZED LONG-TERM GRAIN AGREEMENTS WITH COUNTRIES OTHER THAN THE SOVIET UNION. HOWEVER, WE DO STRONGLY BELIEVE THAT THE US-USSR LONG-TERM AGREEMENT WARRANTS SPECIAL CONSIDERATION DUE TO THE UNIQUE NATURE OF BOTH THE SOVIET GRAIN IMPORT MARKET AND THE VOLATILITY OF US-USSR POLITICAL RELATIONS.

THE EFFORTS TO ENACT S.2357, LEGISLATION CALLING FOR THE SANCTITY OF CONTRACTS, VERSUS THE NEGOTIATIONS OF ANOTHER LONG-TERM GRAIN AGREEMENT ARE NOT MUTUALLY EXCLUSIVE EFFORTS. THESE EFFORTS ARE REALLY COMPLIMENTARY TO ONE ANOTHER, AND COULD WELL REINFORCE AND AUGMENT THE REPUTATION OF THE UNITED STATES AS A RELIABLE SUPPLIER OF BOTH AGRICULTURAL AND INDUSTRIAL EXPORTS TO THE WORLD MARKET. AT THE SAME TIME, POLITICAL REALITIES MUST BE RECOGNIZED AND USED AS A BASIS FOR DETERMINING WHAT OBJECTIVES WILL BE SOUGHT AND WHAT COURSE OF ACTION MUST BE DEVELOPED TO ACHIEVE THIS GOAL.

IN ADDITION, THE QUESTIONS WE ASKED TODAY AT THE BEGINNING OF OUR STATEMENT ABOUT THE EFFECT AND APPEARANCE OF THE PROVISION OF S.2357

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ARE GENUINE AND WARRANT FURTHER EXAMINATION. IN ASSESSING THE VALUE OF, AND OPPORTUNITIES FOR, PUTTING INTO PLACE EITHER OR BOTH OF THE ABOVE CONCEPTS, IT IS THE POSITION OF THE NCGA BOARD OF DIRECTORS THAT RENEGOTIATION OF ANOTHER LONG-TERM GRAIN AGREEMENT WITH THE SOVIET UNION WOULD ALLOW FOR INCREASED U.S. CORN EXPORTS MORE IMMEDIATELY WITH MINIMUM POLITICAL OPPOSITION TO SUCH GRAIN TRADE. NEVERTHELESS, THE NATIONAL CORN GROWERS ASSOCIATION COMPLETELY SUPPORTS THE PASSAGE OF S.2357.

WITHIN THIS COMPLEX ISSUE OF ATTEMPTING TO STABILIZE GRAIN TRADE BETWEEN THE UNITED STATES AND SOVIET UNION, THERE ARE NO DISCERNABLE BLACK AND WHITE AREAS; IT IS SIMPLY A COLLAGE OF GREY THAT MUST BE DEALT WITH IN TERMS OF THE COMBINED ECONOMIC AND POLITICAL CONSIDERATIONS. OFTEN TIMES, OBSERVERS AND INTERESTED PARTIES ATTEMPT TO IGNORE, OR CAST ASIDE, THE POLITICAL RAMIFICATIONS THAT ARE INHERENT IN DIRECT INTERACTION BETWEEN PARTIES. HOWEVER, THE POLITICAL IMPLICATIONS OF ANY INVOLVEMENT -- TRADE, ECONOMIC AND SOCIAL -- BETWEEN THE UNITED STATES AND SOVIET UNION CAN NEVER, AND SHOULD NEVER, BE OVERLOOKED. WE CAN NO LONGER REJECT OUT OF HAND THE POLITICALIZATION OF U.S. AGRICULTURE SIMPLY BECAUSE WE CHOOSE TO HOLD TO IDEALISTIC PRINCIPLES AND IGNORE THE INEVITABLE. WE MUST ACCEPT THIS AS PART OF THE EVOLUTIONARY PROCESS AND MOVE FORWARD WITH THE OBJECTIVE OF PROTECTING THE INTERESTS OF U.S. CORN FARMERS IN ORDER THAT THESE INTERESTS ARE NOT EXPLOITED BY INDIVIDUALS INDIFFERENT TO FARMER NEEDS. BECAUSE WE MUST ACCEPT THE

FUTURE ROLE U.S. AGRICULTURE WILL PLAY IN INTERNATIONAL POLITICS, WE WILL EXPLORE SEPARATELY THE ECONOMIC AND POLITICAL REASONS WHY THIS STRUCTURE OF A LONG-TERM GRAIN AGREEMENT SHOULD BE CONTINUED.

AS YOU WELL KNOW AND CAN APPRECIATE, PERILOUS CONDITIONS PERSIST IN THE U.S. AGRICULTURAL ECONOMY TODAY. THERE ARE A NUMBER OF FACTORS CONTRIBUTING TO THIS ECONOMIC DECLINE. EXTREMELY HIGH INTEREST RATES, LARGE GRAIN SUPPLIES, DRASTICALLY LOW COMMODITY PRICES AND DECLINING LAND VALUES HAVE ALL TAKEN THEIR TOLL ON INDIVIDUAL GRAIN AND LIVESTOCK OPERATIONS. IN ADDITION, THE UNITED STATES CONTINUES TO FACE GROWING COMPETITION FROM OTHER GRAIN EXPORTING NATIONS, OFTEN THROUGH THE USE OF UNFAIR TRADING PRACTICES. THAT IMPAIRS OUR ABILITY TO EXPAND U.S. GRAIN AND COMMODITY EXPORTS. THESE PRACTICES FURTHER COMPOUND THE RESIDUAL EFFECTS OF THE DEVELOPMENT CENTRAL TO THE PROBLEMS NOW FACING U.S. CORN FARMERS -- THE IMPOSITION OF THE PARTIAL GRAINS EMBARGO AGAINST THE SOVIET UNION BY PRESIDENT CARTER ON JANUARY 4, 1980.

THE INABILITY TO COMPLETE DELIVERY OF SEVENTEEN MILLION METRIC TONS OF WHEAT AND CORN IN THE 1979-80 MARKETING SEASON TO THE USSR AS A RESULT OF THE EMBARGO PLACED UNDUE HARDSHIP ON THE U.S. CORN AND GRAIN INDUSTRY THAT WILL BE FELT FOR MANY YEARS TO COME. (FOR YOUR INFORMATION, WE ARE PROVIDING YOU A COPY OF THE "EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS, AND FARMERS" PREPARED BY SCHNITTKER ASSOCIATES FOR THE NATIONAL CORN GROWERS ASSOCIATION TO BE INCLUDED IN THE RECORD.) THE INITIAL LOSS OF THIS SIZEABLE

EXPORT MARKET WAS FORTUNATELY MINIMIZED TO SOME DEGREE IN THE 1979-80 MARKETING SEASON AND, TO SOME EXTENT, ALSO IN THE FOLLOWING MARKETING YEAR OF 1980-81. THIS WAS POSSIBLE BECAUSE OF INCREASED RELIANCE BY SEVERAL GRAIN IMPORTING COUNTRIES ON THE UNITED STATES FOR AGRICULTURAL COMMODITIES DUE TO SEVERE WEATHER DIFFICULTIES THAT LIMITED GRAIN PRODUCTION.

MEXICO, FOR EXAMPLE, INCREASED GRAIN AND COMMODITY IMPORTS IN CALENDAR YEAR 1980 BY 4.5 MILLION TONS OVER THE PREVIOUS SEASON -- THE PREDOMINANT SUPPLY OF WHICH ORIGINATED IN THE UNITED STATES. CONTRARY TO THE BELIEF OF MANY PRIVATE AND GOVERNMENT OFFICIALS WHO WERE TRYING TO DEFEND ADMINISTRATION EXPORT POLICIES, THIS BURGEONING EXPORT MARKET DID NOT IN ITSELF RESULT FROM THE SOVIET GRAIN EMBARGO. THIS INCREASED MEXICAN DEMAND FOR U.S. GRAIN WOULD HAVE DEVELOPED DESPITE U.S. GRAIN TRADE POLICY TOWARD THE SOVIET UNION. WE ARE NOW EXPERIENCING THE EFFECTS OF THOSE POLICY DECISIONS INASMUCH AS THE U.S. PERCENTAGE SHARE OF GRAIN TO THE SOVIET UNION HAS FALLEN FROM 75 PERCENT OF TOTAL IMPORTS TO 25 PERCENT.

FARM GATE PRICES HAVE FALLEN IN THE PRESENCE OF RISING PRODUCTION COSTS, THEREBY LOWERING ANNUAL NET FARM INCOME TO THE LOWEST LEVEL SINCE 1933. AGAINST THIS BACKDROP, THE DECISION TO EXTEND THE 1976 US-USSR LONG-TERM GRAIN AGREEMENT PROVIDES AN OPPORTUNITY TO SEIZE THE ECONOMIC INCENTIVES AVAILABLE FROM EXPANDED GRAIN TRADE WITH THE USSR.

NOTWITHSTANDING THE FACT THAT THE SOVIET UNION IS ONE OF THE WORLD'S LEADING GRAIN PRODUCERS, THE INHERENT INEFFICIENCIES OF THE SYSTEM DO NOT ALLOW FOR MAXIMUM UTILIZATION OF DOMESTIC AGRICULTURAL PRODUCTION. TRANSPORTATION AND PROCESSING DIFFICULTIES CONTINUE TO PLAGUE THE USSR, FURTHER COMPOUNDING PERSISTENT WEATHER DIFFICULTIES THAT LIMIT GRAIN AND FODDER PRODUCTION. THE ULTIMATE RESULT CREATED BY THESE DIFFICULTIES IS A LEVEL OF UNCERTAINTY SURROUNDING SOVIET GRAIN IMPORT DECISIONS, MANY OF WHICH COULD BE MINIMIZED BY CONTINUING THE US-USSR GRAIN AGREEMENT.

THE BASIC REQUIREMENTS TO MAINTAIN LIVESTOCK NUMBERS AT CURRENT LEVELS IN THE SOVIET UNION WILL SIMPLY REQUIRE THE SOVIET UNION TO MAINTAIN THE EXTENDED GRAIN AGREEMENT IN ORDER TO HAVE SOME DEGREE OF ASSURED ACCESS TO THE U.S. GRAIN MARKETS. IN THE USDA CROP FORECAST FOR JULY FOR THE 1982 SOVIET GRAIN PRODUCTION, THE PROJECTION FOR TOTAL PRODUCTION WAS PLACED AT 170 MILLION METRIC TONS -- DOWN 15 MILLION METRIC TONS ESTIMATED IN JUNE; DOWN 30 MILLION METRIC TONS ESTIMATED IN MAY; AND DOWN 68 MILLION METRIC TONS FROM THE OFFICIAL SOVIET STATE PLAN. BECAUSE OF THE DETERIORATING GRAIN CROP IN THE SOVIET UNION, THE USDA CROP FORECAST FOR SOVIET PRODUCTION THAT WILL BE ISSUED IN AUGUST WILL PROBABLY PLACE THE 1982 GRAIN PRODUCTION AT NO MORE THAN 160 MILLION METRIC TONS. TO COMPOUND THE EXTREMELY POOR PROSPECTS FOR GRAIN PRODUCTION, THE SOVIET UNION IS ALSO EXPERIENCING EVEN EQUAL DIFFICULTIES WITH FODDER PRODUCTION THIS YEAR. CONSEQUENTLY, THE LEVEL OF TOTAL GRAIN IMPORTS IN 1982/83 FOR THE SOVIET UNION COULD WELL RUN AS HIGH AS

50 MILLION METRIC TONS. THIS IMPORT VOLUME WOULD THEN REQUIRE THE SOVIET UNION TO PURCHASE AT LEAST 18 MILLION METRIC TONS OF GRAIN FROM THE UNITED STATES, ALONG WITH ABOUT 32 MILLION METRIC TONS FROM NON-U.S. ORIGINS. THIS GRAIN IMPORT REQUIREMENT FOR 1982/83 REFLECTS NOT ONLY THE DISASTEROUS 1982 GRAIN PRODUCTION PROSPECTS; IT DEMONSTRATES THE COMMITMENT THE SOVIET UNION HAS MADE TOWARD INCREASED LIVESTOCK PRODUCTION DURING THE 1980'S:

YEAR	TOTAL CATTLE	COWS
	--- (MILLION HEADS) ---	
1978	92.5	29.3
1979	93.7	29.7
1980	94.0	29.8
1981	94.8	29.9

ACCORDING TO USDA DATA, THE NUMBER OF CATTLE ON STATE AND COLLECTIVE FARMS AS OF JUNE 1, 1982, WAS AT A RECORD HIGH OF 95.4 MILLION HEADS WITH COWS ACCOUNTING FOR 30.0 MILLION HEADS. BECAUSE THE 1982 FORAGE CROP IS SO LATE IN DEVELOPING BECAUSE OF UNFAVORABLE WEATHER THAT HAS REDUCED BASIC GRAIN PRODUCTION PROSPECTS, THE SOVIET UNION WILL HAVE TO IMPORT GRAINS TO THE LIMIT OF THE PHYSICAL CAPACITY OF IMPORTING FACILITIES TO MAINTAIN THE RECORD NUMBER OF CATTLE. THIS CONSIDERATION WILL BE EXTREMELY IMPORTANT IN THE SOVIET DECISION TO ACCEPT NOT ONLY A ONE-YEAR EXTENSION OF THE US-USSR GRAIN AGREEMENT, BUT TO ACCEPT IT TOO FOR THE PURPOSE OF NEGOTIATING ANOTHER LONG-TERM GRAIN AGREEMENT DURING THE EXTENDED SEVENTH YEAR OF THE 1976 AGREEMENT.

UNFORTUNATELY FOR THE AMERICAN FARMER, THE SOVIET UNION HAS CAPITALIZED ON THIS CONFUSION TO MANAGE EFFECTIVELY WORLD MARKETS AND

SUBSEQUENT GRAIN EXPORT PRICES. FOR A CLASSIC EXAMPLE OF THIS MARKET MANAGEMENT ONE ONLY NEED LOOK AT THE PATTERN OF SOVIET GRAIN BUYING FROM THE UNITED STATES AND ARGENTINA IN RECENT MONTHS. DURING THIS PERIOD OF TIME OF LOW COMMODITY PRICES IN THE U.S. AND HEAVY ARGENTINE COARSE GRAINS SUPPLIES DURING HARVEST, THE SOVIET UNION WAITED BEFORE PURCHASING EITHER U.S. CORN OR RESUMING THE PURCHASE AND LIFTING OF ARGENTINE GRAIN. THE SUBSEQUENT DECLINE IN ARGENTINE GRAIN PRICES BECAME ANOTHER PRICE-DEPRESSING FACTOR ON INTERNATIONAL GRAIN PRICES. IN TURN, THE CHICAGO FUTURES MARKETS FOR GRAINS BEGAN TO REACT TO THE MANAGEMENT OF THE U.S. AND ARGENTINE GRAINS MARKETS. CONSEQUENTLY, THERE WERE ADDITIONAL INTERNATIONAL PRESSURES ON U.S. GRAIN VALUES -- FUTURES AND CASH PRICES OF WHICH WERE ALREADY SEVERELY PRESSURED FROM THE DOMESTIC U.S. SUPPLY SITUATION AND WHICH HAVE BEEN FURTHER EXACERBATED BY A RUINOUS LEVEL OF U.S. INTEREST RATES.

ALTHOUGH NOT COMPLETELY CONTROLLING THE PATTERN OF SOVIET PURCHASES OF U.S. GRAIN, A NEW LONG-TERM GRAIN AGREEMENT WITH SUBSTANTIALLY HIGHER MINIMUM PURCHASE OBLIGATIONS WOULD AID IN THIS EFFORT INASMUCH AS SPECIFIC REFERENCE IS MADE IN THE CURRENT AGREEMENT TO UNIFORM PURCHASE AND DELIVERIES. IN FACT, ARTICLE III OF THE EXISTING AGREEMENT STATES, "IN CARRYING OUT THEIR OBLIGATIONS UNDER THIS AGREEMENT, THE FOREIGN TRADE ORGANIZATIONS OF THE USSR SHALL ENDEAVOR TO SPACE THEIR PURCHASES IN THE USA AND SHIPMENTS TO THE USSR AS EVENLY AS POSSIBLE OVER EACH 12-MONTH PERIOD." IN THE ABSENCE OF AN EFFECTIVE AGREEMENT, THE USSR WOULD ESSENTIALLY BE UNRESTRICTED IN THEIR PURCHASES OF U.S. GRAIN, BOTH IN TERMS OF QUANTITY AND TIMING OF PURCHASES.

IT MAY BE USEFUL TO REVIEW QUICKLY THE BASIC REASONS PREVAILING IN 1973-75 FOR WHICH THE US-USSR GRAIN SUPPLY PACT WAS NEGOTIATED IN 1975, ALL OF WHICH WERE TO PROVIDE STABILITY TO GRAIN MARKETS BECAUSE OF ERRATIC SOVIET PURCHASES FROM YEAR TO YEAR. IN ORDER TO PREVENT THE SOVIET UNION FROM EXPORTING THE INSTABILITY OF THEIR SHARP SWINGS IN DOMESTIC GRAIN PRODUCTION TO U.S. COMMODITY MARKETS, MANY URBAN CONGRESSMEN AND CONSUMER GROUPS SIMPLY DEMANDED THAT THERE BE PUT INTO PLACE AN AGREEMENT WHEREBY SOVIET ACCESS TO THE U.S. GRAIN MARKET WAS, IN FACT, REGULATED. ALTHOUGH CONTRARY TO PRODUCER ATTITUDES IN 1974-76, THE LONG-TERM GRAIN AGREEMENT WAS NEGOTIATED AND PUT INTO PLACE.

THE LONG-TERM GRAIN AGREEMENT WAS NOT PRIMARILY AN INSTRUMENT WHEREBY THE UNITED STATES WOULD PROVIDE THE SOVIET UNION WITH AN ASSURANCE OF AN ANNUAL MINIMUM VOLUME OF GRAIN FREE FROM THE IMPOSITIONS OF AN EMBARGO. THIS FACTOR DID NOT ARISE UNTIL PRESIDENT CARTER INITIATED THE SELECTIVE AND PARTIAL GRAINS EMBARGO AGAINST THE SOVIET UNION ON JANUARY 4, 1980. HOWEVER, THIS FACTOR LOOMS NOW AS AN IMPORTANT ELEMENT IN THE EFFORTS TO MINIMIZE THE IMPACT OF POLITICAL DECISIONS AFFECTING U.S. GRAIN EXPORTS. THE INITIAL AGREEMENT BETWEEN THE UNITED STATES AND SOVIET UNION PROVIDED FOR ACCESS TO A MINIMUM ANNUAL QUANTITY OF U.S. GRAIN OF EIGHT MILLION METRIC TONS. PURCHASES ABOVE THE MINIMUM SPECIFIED QUANTITIES WERE POSSIBLE, BUT REQUIRED BILATERAL CONSULTATIONS. IN THE 1979-80 MARKETING SEASON, THE UNITED STATES AGREED TO SELL SEVENTEEN MILLION METRIC TONS OF ADDITIONAL GRAIN TO THE SOVIET UNION. THIS WAS THE ACTUAL LEVEL OF GRAIN PROHIBITED FROM EXPORT TO THE USSR UNDER

THE PARTIAL GRAINS EMBARGO. THE ORIGINAL EIGHT MILLION TONS WERE ALLOWED TO BE SHIPPED UNDER THE PROVISIONS OF THE EXISTING BILATERAL AGREEMENT. THIS REAFFIRMED THE COMMITMENT OF THE UNITED STATES TO HONOR PROVISIONS OF PREVAILING INTERNATIONAL AGREEMENTS UNDER WHICH THE COUNTRY HAS ENTERED. THIS COMMITMENT IS NOT AUTOMATIC, BUT CERTAINLY IN KEEPING WITH PAST PRACTICES OF THE UNITED STATES IN HONORING COMMERCIAL AND POLITICAL OBLIGATIONS.

WE SHOULD NOT OVERLOOK, AS WELL, THE ECONOMIC SIGNIFICANCE OF REASSUMING THE ROLE AS A RELIABLE AND MAJOR SUPPLIER OF GRAIN TO THE SOVIET UNION. THE UNITED STATES NOW ONLY SUPPLIES APPROXIMATELY 25 PERCENT OF THE TOTAL ANNUAL SOVIET GRAIN IMPORTS. THIS COMPARES WITH A LEVEL OF 75 PERCENT OBTAINED DURING THE UNIMPEDED YEARS OF THE CURRENT GRAINS AGREEMENT. FOLLOWING THE 1980 EMBARGO, THE USSR MOVED IMMEDIATELY TO DIVERSIFY THEIR SOURCES OF SUPPLY AND REDUCE DEPENDENCE ON THE UNITED STATES AS THE PREMIER SUPPLIER OF GRAIN. IT WOULD OBVIOUSLY BE IN THE BEST INTERESTS OF THE U.S. ECONOMY IN GENERAL AND U.S. AGRICULTURE IN PARTICULAR TO RECAPTURE THIS LOST EXPORT MARKET. THIS WOULD ALLOW THE U.S. TO ONCE AGAIN ASSUME THE ROLE AS LEADING SUPPLIER OF GRAIN TO THE SOVIET UNION. SOVIET GRAIN PURCHASES IN FUTURE YEARS MAY IN FACT APPROACH SIMILAR LEVELS EVEN IN THE ABSENCE OF AN AGREEMENT. HOWEVER, THIS WOULD REMAIN UNCERTAIN BECAUSE OF THE SOVIET UNION'S INCREASING RELIANCE ON OTHER COUNTRIES FOR AGRICULTURAL IMPORTS. THE BEST AVAILABLE TOOL FOR DEVELOPING ANY RELIABILITY ON SOVIET GRAIN PURCHASES, IN THE ABSENCE OF POLITICALLY MOTIVATED TRADE SANCTIONS, WOULD BE THROUGH THE IMPLEMENTATION OF A FORMALIZED TRADING STRUCTURE BETWEEN THE UNITED STATES AND THE SOVIET UNION WITH INCREASED ANNUAL MINIMUM GRAIN PURCHASE LEVELS.

OF ADDITIONAL CONCERN TO MEMBERS OF OUR ORGANIZATION ARE THE RESIDUAL EFFECTS ANY DESTABILIZATION IN US-USSR GRAIN TRADE MAY HAVE ON MARKET DEVELOPMENT AND EXPANSION EFFORTS WORLDWIDE. FOR OVER TWENTY YEARS, U.S. FARMERS HAVE CONTRIBUTED SUBSTANTIAL SUMS OF MONEY TO ASSIST IN WORLDWIDE MARKET DEVELOPMENT ACTIVITIES IN ORDER TO EXPAND COMMODITY EXPORTS. THIS DEDICATION HAS PLAYED A CRITICAL ROLE IN OUR ABILITY TO INCREASE AGRICULTURAL EXPORTS, THUS GENERATING SIZEABLE RETURNS TO THE U.S. ECONOMY AND AIDING OUR BALANCE OF TRADE PAYMENTS. UNFORTUNATELY, MANY OBSERVERS ARE NOW QUESTIONING WHAT THEY FEEL ARE INCONSISTENCIES IN PURSUING AGGRESSIVE EXPORT ORIENTED POLICIES WHILE AT THE SAME TIME CONTINUING TO MAINTAIN RESTRICTIONS ON EXPORTS TO VARIOUS DESTINATIONS.

IF A POLICY OF "LINKAGE" CONTINUES TO PREVAIL REGARDING INTERNATIONAL SOVIET BEHAVIOR AND OUR WILLINGNESS TO REDUCE BARRIERS TO EXPANDED AGRICULTURAL AND INDUSTRIAL EXPORTS, THEN FURTHER AND MORE CRITICAL EXAMINATIONS COULD BE EXPECTED TO MATERIALIZE ON THIS ISSUE. IF THE COMMITMENT BY THE AGRICULTURAL INDUSTRY TO COMPREHENSIVE MARKET DEVELOPMENT PROGRAMS CONTINUES TO ERODE, THEN WE COULD ALSO EXPECT OUR POSITION AS THE PREEMINENT SUPPLIER OF GRAIN AND OTHER AGRICULTURAL GOODS TO THE WORLD MARKET TO BE IN JEOPARDY AS WELL. MOREOVER, FARMERS WOULD FACE FURTHER PROBLEMS WHEN TRYING TO DETERMINE PRODUCTION AND MARKETING OBJECTIVES FOR SUBSEQUENT SEASONS. ANY UNCERTAINTY ABOUT THE POTENTIAL FOR WORLD COARSE GRAINS SALES WOULD REFLECT ON THE FARMERS' DECISIONS TO PLAN FOR ANNUAL ACREAGE AND PRODUCTION GOALS. THE FARMER WOULD SIMPLY

HAVE TO IMPLEMENT PLANS BASED ON WHAT INFORMATION IS AVAILABLE -- THE LACK OF WHICH WOULD CONSTITUTE ON AN EQUIVALENCY BASIS THE ANNUAL SOVIET IMPORT PROSPECT OF 50 MILLION METRIC TONS, APPROXIMATELY 23 PERCENT OF WORLD GRAIN TRADE.

MR. CHAIRMAN, WE HAVE DISCUSSED MANY OF THE ECONOMIC REASONS WHY NORMALIZED GRAIN TRADE RELATIONS WITH THE USSR ARE NECESSARY, DESIRABLE AND MUTUALLY BENEFICIAL TO THE TWO COUNTRIES. PERHAPS MORE IMPORTANT, HOWEVER, ARE THE POLITICAL JUSTIFICATIONS FOR SUSTAINING THE EFFORT TO ACHIEVE THESE GOALS. I HAVE ALREADY MENTIONED OUR AWARENESS OF U.S. AGRICULTURES' EMERGENCE AS A CRITICAL ELEMENT IN THE ARENA OF INTERNATIONAL POLITICS. THERE HAVE BEEN IN THE PAST, AND WILL CONTINUE TO BE IN THE FUTURE, TIMES WHEN FOOD AND ITS AVAILABILITY ARE USED TO ATTEMPT TO EXTRACT FOREIGN POLICY CONSIDERATIONS FROM ONE OR MORE COUNTRIES. ON THOSE OCCASIONS, U.S. FARMERS SUFFERED INORDINATELY AND UNFORTUNATELY BECAUSE OF SUCH DECISIONS. IT IS IN OUR BEST INTEREST AS FARMERS THAT WE ACTIVELY ATTEMPT TO INFLUENCE THESE DEVELOPMENTS. IT IS ALSO IN OUR BEST INTEREST AS U.S. CITIZENS THAT EVERY EFFORT BE MADE TO ENSURE WORLD PEACE. IT IS OUR BELIEF THAT FOOD CAN, AND SHOULD, BE USED AS AN "INSTRUMENT OF PEACE." IF BETTER AND MORE STABLE AGRICULTURAL TRADE RELATIONS WITH THE SOVIET UNION WILL AID IN THIS EFFORT, SHOULD THIS NOT BE OUR ULTIMATE GOAL? IF GREATER SOVIET DEPENDENCE ON THE UNITED STATES CHANNELS MORE HARD CURRENCY INTO THE PURCHASE OF FOOD RATHER THAN MILITARY HARDWARE, SHOULD THIS ALSO NOT BE OUR ULTIMATE GOAL? WE BELIEVE THE ANSWER TO THESE QUESTIONS IS OBVIOUS: YES!

EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS, AND FARMERS

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SUMMARY

1. The President's action of January 4, 1980, suspending or stopping shipments of agricultural products to the Soviet Union, directly affected 13 million metric tons (mmt) of corn, 4 mmt of wheat and 1.3 mmt of soybeans and meal that was destined for the USSR in the 1979-80 shipping season. U.S. exports of those products in the 1980-81 season (July 1, 1980 to June 30, 1981) and subsequent years were also substantially reduced. While these effects at first were partly offset by increased exports to other countries, losses to industry, the government, and farmers were substantial.

2. The principal effects of the action outside the farm sector itself were on inland transportation, ocean shipping, labor use, the U.S. balance of payments, federal expenditures, and personal income.

3. Estimates of direct losses and costs in the affected sectors include these sectoral impacts:

- Reduced value of inland transportation — $120 to $175 million,
- Reduced value of ocean shipping — $240 to $365 million,
- Balance of payments losses of up to $2.5 billion arising directly from lost exports, and up to $1.9 billion arising from lower unit values of all U.S. grain exports in 1980 and most of 1981.
- Direct U.S. government costs of $1.5 billion for acquisition of additional commodities, and $1.0 billion for interest, storage, and handling arising from owning the commodities for a period of years.
- Additional target price payments to wheat farmers of $375 million.

The most important impacts, however, were those that take into account not simply the above sectors that were directly affected, but producer and consumer sectors on a national basis. There we estimate losses of $11.4 billion in overall national output, 310,000 jobs, and $3.1 billion in personal incomes earned in the U.S.

Impact of Lost Exports to the USSR in 1980 on the U.S. Economy

	Nationwide Losses In		
	Output - $ mil -	Employment - No. workers -	Personal Income - $ mil -
Corn	$ 6,863	189,630	$1,806
Wheat	3,014	79,508	856
Soybeans	1,568	40,635	445
Total	$11,445	309,773	$3,107

4. Indirect, intangible, and future effects of both the 1980 action and its unofficial resumption in 1982 have far reaching implications for the U.S.

   - The U.S. has become the residual instead of the principal supplier of agricultural products to the Soviet Union.

   - The U.S. may export only very small tonnages or perhaps no grain at all to the USSR in some future years under certain economic and political conditions.

   - It will be very difficult to negotiate a favorable U.S.-USSR grain agreement in view of export availabilities from other countries.

   - Encouraged both by an expanding world grain market in the 1970's and by U.S. "stop and go" export policies, other exporting countries have increased both their transport and loading capabilities and their grain production.

5. A general trade embargo banning the export of U.S. goods to the Soviet Union in 1982 would almost inevitably cut off or seriously reduce this trade for many years. Such an action would be inherently an action whose direct impacts would fall principally on the farm sector and allied industries, since most of our exports to the USSR are of farm origin.

   If such an action prevented the shipment of 24 mmt or 945 mil. bu. of corn over three years, plus 12 mmt or 441 mil. bu. of wheat and 3 mmt or 110 mil. bu. of soybeans, before it could be ended in (say) 1985, the overall economic costs would be as shown in the table below.

Impact of Lost Exports to USSR in 1982-85 on the U.S. Economy

	Nationwide Losses In		
	Output - $ mil -	Employment - Man Years -	Personal Income - $ mil -
Corn	$16,588	458,346	4,365
Wheat	11,474	302,731	3,260
Soybeans	4,814	124,740	1,368
Total	$32,876	885,817	$8,993

EFFECTS OF THE 1980 AND 1981 LIMITATIONS ON GRAIN EXPORTS TO THE USSR ON BUSINESS ACTIVITY, JOBS, GOVERNMENT COSTS AND FARMERS

This report provides: (1) a brief description of the suspension of sales and shipments of agricultural products to the Soviet Union by President Carter from January 1980 to April 1981; (2) a description of the economic sectors directly and indirectly affected by that action; (3) estimates of direct losses and costs in the U.S. associated with the President's action; (4) an analysis of indirect costs and other adverse effects; and (5) a projection of the adverse effects in 1982-85 if a similar action were taken this year.

Analysis of the 1980 action has focused mainly on costs to the government and losses to the farmer in the months immediately afterward. This report deals principally with effects on certain economic sectors and the overall U.S. economy, as well as with costs borne by farmers and government.

1. The Action: Suspension of Grain and Other Agricultural Product Exports to the Soviet Union.

The facts are simple enough. On January 4, 1980 President Carter ordered an indefinite suspension of shipments of agricultural products and some other goods to the USSR. The principal direct effect was to prevent the shipment of 13 million metric tons (mmt) of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of U.S. soybeans and soybean meal that had been sold to the USSR for delivery before October 1, 1980. All but the soybeans were sold under terms of the fifth year of the U.S.-USSR grain agreement. (Poultry and a few other agricultural commodities affected by the action are not considered here).

Grain shipments to the USSR up to the 8 mmt that had been guaranteed by the U.S. under the Agreement entered into in 1975 were allowed to continue, both in the 1980-81 and the 1981-82 season. This accounts for the term "suspension" which was used in official government descriptions of the action, as distinguished from "embargo" which was commonly used outside the government. When the 8 mmt of grain that the U.S. had agreed to ship between October 1, 1979 and September 30, 1980 had been sent, the suspension became an embargo until October 1, 1981 when another 8 mmt was authorized to be sold and exported to the USSR under the Agreement. Shipments of soybeans, broilers and some other agricultural products not under a trade agreement were embargoed from January 4, 1980 through April 1981 when the action was ended by President Reagan.

While the purpose of this report is to describe and estimate the effects of the loss of grain shipments, principally corn, to the USSR in 1980, it also touches on soybeans. Soybeans are produced on the same farms as corn and in some cases wheat. They move through the same marketing system using the same transport and storage equipment. Therefore, conclusions drawn for grains apply directly to soybeans even though not all our estimates include soybeans.

The 1980 action affected the volume of US-USSR trade and overall commercial relations directly in all of 1980 and until April,1981. The indirect effects continue to the present and will continue for an indefinite period. Their effects need to be taken into account and are treated here.

In describing the action and its effects, it is necessary to recognize economic linkages that go well beyond U.S. borders. When 13 mmt of U.S. corn, 4 mmt of U.S. wheat, and 1.3 mmt of soybeans and products could not be shipped to the USSR between January and October 1980, the Soviets turned to Canada, Australia, and Argentina for grain. Argentina which did not join with the U.S. in limiting grain shipments to the USSR, shipped additional quantities and was then unable to deliver the usual quantities to its regular markets. U.S. sales to some of those markets increased somewhat as a result. However, as discussed below, other exporting countries also responded to the larger market in the USSR, resulting from from the U.S. embargo, by increasing total exports and later by increasing production.

While U.S. grain exports did not decline by the full amount of the direct 17 mmt decline in wheat and corn exports to the USSR in the 1979-80 season, this magnitude of decline is probably not a bad estimate of the loss in U.S. exports in the two years following the January 4, 1980 embargo. For example, during the (current) sixth year of the U.S.-USSR Grain Agreement beginning October 1, 1981 the U.S. has offered the Soviets 23 mmt of grain, but it appears that they will take only about 11 mmt from the U.S. The USSR purchased 16 mmt from other sources in 1979-80, 26.5 mmt in 1980-81, and will probably buy about 29 mmt from non-U.S. sources in 1981-82.

2. Moving U.S. Corn, Wheat and Soybeans Into Export Markets.

In this section, we will describe the industry sectors and government indicators that are most closely related to grain exports. Estimates of industry, government and general economic impacts are provided mainly in Section 3.

The amounts and percentages of U.S. corn, wheat and soybeans going into domestic and export markets for the two most recent years (1979-80 and 1980-81 marketing seasons) are shown below. Note that from 33 to 64 percent of production has been exported in recent years. Removing or substantially reducing such a large volume of exports to a major (sometime the largest) customer is a critical matter with far reaching effects.

U.S. Supply-Demand Balances for Corn, Wheat, and Soybeans, Average 1979-80 and 1980-81 Marketing Years

	Corn	Wheat	Soybeans*
	million metric tons		
Production	185.3	61.3	55.2
Domestic Uses	127.9	21.3	21.1
Exports	60.8	39.3	29.3
	million bushels		
Production	7,294	2,254	2,030
Domestic Uses	5,036	781	777
Exports	2,394	1,442	1,076
Percent of production exported	32.8	64.0	53.0

* Includes products on a soybean equivalent basis.

The principal economic sectors involved in moving agricultural exports on to their final destination are:

(A) Inland Transportation. Corn and soybeans move from production into export mainly from the Midwest, although some export corn originates in the Southeast and the Great Plains. Wheat moves to ports largely from the Southern and Northern Plains, the Midwest and Southeast, and the Northwest.

- Roughly 55 percent of the grain and soybeans bound for export in 1980-81 moved to port by rail at a cost of about $.28/bu. from average locations to ports.

- About 45 percent moved by barge at an average cost of $.20/bu., although a small amount moves by truck.

(B) Ocean Shipping. Less than 5 percent of U.S. grain and soybean exports are shipped on U.S. flag vessels. Therefore, the estimate of lost ocean shipping receipts resulting from the 1980 trade suspension is for the world shipping industry rather than for the U.S. Average ocean freight rates in 1980 were about $20/ton for bulk grain shipments from U.S. Gulf ports to the USSR.

(C) Fertilizer, Farm Machinery, Farm Supplies. Effects of reduced exports on these sectors would be caused by:

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- Accumulation of large carryovers, leading to government programs to reduce acreage planted or intensification of such programs already in effect to reduce plantings by more than had been intended before exports declined.

- Reduced market prices, leading to lower net farm income and diminished farmer purchasing power.

(D) Labor. Reduced labor use in the transport, port loading industries and agricultural supply industries would provide the principal loss in this area from lower exports.

(E) Balance of Payments. Total U.S. farm exports were valued at $40.5 billion in 1980 and $43.8 billion in 1981, on a fiscal year basis.

Agricultural exports adjusted for agricultural imports are credited with contributing a net improvement in the U.S. balance of payments of about $25 billion as an average for 1980 and 1981, despite the reduced volume and the reduced value per unit of agricultural exports.

The year 1980, however, may have marked a turning point in U.S. agricultural trade results. For example, U.S. exports to the USSR grew rapidly and fairly steadily during the 1970's, but fell sharply in 1980. Meanwhile, trade with Eastern Europe which was not affected by the embargo, continued to increase in 1980 and especially in 1981, when exports to the USSR also recovered to about the 1976 level.

Value of All U.S. Exports to USSR and Eastern Europe

Calendar Year	Total Exports to USSR	Agricultural Exports to USSR	Total Exports to E. Europe	Percent Agricultural Exports to USSR
	millions			
1971	$ 161	$ 45	$ 220	28
1975	1,833	1,170	1,279	64
1976	2,306	1,605	1,543	70
1977	1,621	1,053	1,121	65
1978	2,249	1,765	1,454	78
1979	3,604	3,000	2,115	83
1980	1,510	1,208	2,421	80
1981	2,431	1,665	4,338	68

Source: Department of Commerce

It is within the above framework of expanding trade with the USSR and Eastern Europe in the 1970's that losses in grain and other agricultural exports to those countries in 1980 and subsequent years, and arising from U.S. trade policy must be framed.

Another source of lost export earnings apart from the 18.3 mmt gross loss of shipments to the USSR or the net reduction in U.S. exports to the whole world, is the reduced value per unit of corn, wheat, or soybeans exported to other countries. In the next section we provide estimates of average price reductions per bushel or ton, resulting from the suspension or embargo action. These reductions affected the unit value of all agricultural exports subsequent to the embargo, not only in 1980, but as we shall show, in 1981 and 1982 as well.

(F) Federal Expenditures. Increased costs to the U.S. government can never be fully accounted for since many thousands of man-hours, and much travel and communication were involved, taking time from other necessary government functions. The major tangible sources of increased costs arising from the suspension were:

- Losses incurred in assuming most of the export contracts for grains, oilseeds, and other products that were cancelled by the suspension action. USDA estimates this direct cost at about $465 million in the 1980 and 1981 fiscal years.

- Costs incurred in acquiring, owning, and storing grain through increased loan and reserve entries, and direct purchases from farmers. As a result of the reduced prices and larger stocks associated with the embargo, the Commodity Credit Corporation of USDA (CCC) purchased about 150 mil. bu. of wheat and 155 mil. bu. of corn directly. We estimate also that about 200 mil. bu. additional wheat and corn went into the USDA grain reserve as a result of the embargo. Treating these outlays as costs is controversial since CCC will recover all or a large part of them. However, additional government outlays were made and must be counted.

- Costs incurred in storing and owning the above additional commodities acquired by the CCC in the present case, for an estimated 3-4 years in view of the overall grain situation. Virtually all the grain purchased is still owned in 1982, and there is little prospect that it can be disposed of until 1983 or 1984.

- Costs incurred in meeting target price payment obligations in 1980 or 1981 which were attributable to lower market prices, resulting from the embargo. No target price payments were made on the 1980 corn crop since a poor U.S. corn harvest kept all grain prices above target price guarantee levels. None were made in 1981, when U.S. policymakers unaccountably set the target and loan prices at the same level. However, target price payments of 15 cents per bushel on approximately 2.5 bil. bu. of wheat in 1981 must be attributed to the embargo in full or substantial part. Also, we estimate that average

prices received by farmers in 1980 for corn averaged at least 15-20 cents/bu. lower than would have been the case without the embargo. Our figures show that average farm prices for corn until August 1981 were about 30-40¢/bu. lower than if the U.S. had exported the larger quantities expected to be shipped in 1980. Without a suspension of trade with the USSR, we would not have had as large a carryover of corn at the beginning of the 1980-81 marketing year (1.6 mil. bu.), overall supplies would have been far tighter with the small crop, and prices would have been substantially higher to the present time or at least until the late summer of 1981. Wheat prices were reduced by an average of 25 cents per bushel over the two years.

3. Estimates of Direct Losses and Costs.

In Section 2 we described the linkages of farm produced grain to various economic sectors in and outside agriculture. In this section, we provide specific estimates of losses and/or costs incurred by the private sector and by government as a direct result of the 1980 suspension (later embargo) of certain exports to the USSR.

(A) Reduced Value of Inland Transportation. Losses to providers of rail, barge, and other transport for grains and oilseeds are estimated, based on composite freight rates provided in Section Two, and on two levels of reduced exports:

- 18.3 mmt of lost exports, the gross amount by which U.S. shipments to the USSR in the period January-October 1980 were reduced. Using this approach, the estimated loss in freight receipts mostly to rail and barge operators was $175 million; or

- 12 mmt, a rough estimate of the net amount by which U.S. exports of grain and soybeans to the world were reduced in 1980. This takes into account our increased exports to other countries that were the direct result of a rerouting of 3rd country exports to the USSR and increased U.S. exports to their usual markets. The estimated loss in freight receipts in this case, where the loss in USSR exports was partly offset, would be about $145 million.Judgments and claims on this matter will vary. Just after January 4, USDA and other offical spokesmen made representations that large amounts of grain no longer bound for the USSR would be bought by Mexico. It is possible that Mexico bought some of the grain, but it is most unlikely that Mexico bought more than she would have needed from the U.S.

(B) Ocean Shipping (world). Net losses in revenues in 1980 were either:

- $ 365 mil. based on the gross loss of export sales to the USSR; or

- $ 240 mil. based on the net loss of export sales to the world.

As indicated earlier, less than 5 percent of this loss can be allocated to directly to U.S. flag vessels, although much more might be attributed to U.S. ownership and/or manning of foreign flag vessels.

(C) Labor Lost in Transport and Shipping. We have not estimated this directly, but include it with an aggregate estimate later in this section of the overall impact on labor and goods. The total loss in jobs throughout the economy was in the area of 310,000.

(D) Balance of Payments. The loss in export earnings from reduced shipments to the USSR in 1980 was:

- Approximately $2.5 billion, based on actual export prices and the gross amount of reduced exports; or

- About $1.5 billion, if only 60 percent of the gross loss in exports is considered, in view of increased exports to other countries.

There is, however, another balance of payments cost that must be assessed --the reduced per unit value of U.S. grain export sales after January 4, 1980: (1) to all other countries in 1980; and (2) to all other countries in 1981. We estimate that the lower prices averaging 15-20 cents/bu. of corn and wheat in 1980 and 30-40 cents/bu. in the first nine months of 1981 affected roughly 3,600 million bushels of the two export grains in 1980 and 2,900 million bushels in 1981. Losses in exports from this secondary impact on the value of all exports were in the area of $540-$720 million in 1980 and $870-$1,160 million in 1981.

(E) Government Costs. In the previous section we identified about 305 million bushels of increased acquisitions of grain by CCC because of the trade suspension. The cost of these acquisitions is conservatively estimated at $1.5 billion.

Interest on $1.5 billion for the three years that these extra stocks are expected to be in CCC hands, at 12 percent amounts to $540 million. Storage and handling at 30 cents/bu./year comes to $454 million. Extra costs for wheat target price payments made in 1981 were as much as $375 million.

(F) The U.S. Economy. The lost exports to the USSR as a result of the January 4, 1980 embargo had a major impact on the total U.S. economy. Agricultural production and exports generate jobs and incomes far beyond farming itself -- in the agricultural input industries, in transportation and storage, in food processing, etc. For example, USDA estimates that every $1 million of production or exports of wheat, corn, or soybeans results in $5.2-$5.4 million in gross output of goods and services in the whole economy, including the farming sector.

The aggregate effects on the U.S. economy of the USSR grain embargo are summarized in the following table. In making these calculations we used the season average prices of corn, wheat and soybeans that actually prevailed in the

1979-80 marketing year, prices well below what they would have been without the embargo, as indicated previously. Using these prices tends to underestimate the losses involved, but the magnitude of the loss in income to the U.S. economy is so great that one can treat it conservatively without loss of effect.

On the other hand, we assume that the full 18.3 mmt of grain and soybeans affected by the embargo represents lost exports over two seasons. As discussed earlier, this probably overestimates the loss in actual exports in 1980, but is a reasonable representation or an underestimate of the two year loss in exports.

The effects of the 1980 embargo on the U.S. economy are estimated as follows, based on the Commerce Department's input-output model of the U.S. economy and the gross reduction in exports:

- A loss of $11.4 billion in output of goods and services -- 0.5 percent of national output;
- Reduced employment equivalent to 310 thousand workers, or 0.3 percent of total employment; and
- A reduction in personal income of $3.1 billion, or 0.1 percent of total.

Note in the table below that the impacts are listed separately for corn, wheat, and soybeans.

Impact of Lost Exports to USSR in 1979-80 on U.S. Economy

	Season Average Farm Price	Lost Export Volume	Lost Export Revenue	Nationwide Losses In 1/		
				Output	Employment	Personal Income
	$/bu.	mil. bu.	mil. $	mil. $	No. workers	mil. $
Corn	2.52	512	1,300	6,863	189,630	1,806
Wheat	3.78	147	646	3,014	79,508	856
Soybeans	6.28	48	301	1,568	40,635	445
Total			2,447	11,443	309,773	3,107

1/ Based on Gerald Schluter and Kenneth C. Clayton, Expanding the Processed Product Phase of U.S. Agricultural Exports; NED, ERS, USDA, July 1981.

4. Indirect Costs and Other Damage to U.S. Agriculture and the Economy.

Prior to the January 4, 1980 suspension of grain sales and shipments and the accompanying political strains between the U.S. and USSR, American farmers had been and were expected to remain the principal suppliers of grain and soybean meal to the USSR. This is evidenced by the record of grain shipments from the 1971-72 through the 1978-79 season, as shown below. While our exports to the Soviets did not maintain the spectacular level of 1972-73, they did increase in the seasons indicated. This is especially true if we consider the low level shipped in 1971-72 of 2.9 mmt of U.S. grain. U.S. shipments were far greater than shipments by all other suppliers combined in most years after 1971, until the year of the embargo.

(A) The U.S. Has Now Become the Residual Supplier to the USSR. The commercial relationship in grains developed with the USSR during the 1970's represented a sharp change in the U.S. role in the world's grain trade, compared with our position vis a vis other importing nations. For a number of reasons arising out of the nature of grain marketing procedures and government policies in other countries and from some past U.S. farm policies, the U.S. has often been the residual supplier of wheat and coarse grains to the world. This is more true in the case of wheat than of corn, but it is true of both sectors. All other suppliers would sell whatever they had available in most years, and the U.S. would supply the remainder to a waiting world.

With the USSR the U.S. was the favored supplier and other countries got the residual trade -- until 1980. This situation developed both from the large quantities of grain Russia needed in some years; their experience in getting such quantities readily from the U.S.; and their lack of confidence in getting large quantities from other suppliers.

The predominance of U.S. shipments is seen in the fact that we supplied between 55 and 75 percent of USSR grain imports between 1972-73 and 1979-80, after having only a 37 percent share in 1971-72.

USSR Wheat and Coarse Grain Imports, By Source

(July-June Year)

	1971-72	1972-73	1973-74	1975-76	1977-78	1978-79
	million metric tons					
U.S.	2.9	13.7	7.9	13.9	12.5	11.2
Argentina	0.1	0.1	0.3	1.4	2.7	1.4
Canada	3.0	5.1	1.8	4.5	1.9	2.1
Australia	0.5	0.9	0.1	2.0	0.3	0.1
EC	0.1	1.9	0.5	0.5	0.2	0.2
Other	1.2	0.8	0.3	3.4	0.8	0.1
Total	7.8	22.5	10.9	25.7	18.4	15.1

That favored relationship no longer exists and is not likely to be re-established. The U.S. is now the residual supplier to the USSR.

The contrast of the previous record with the export record since the 1980 suspension action and expectations for the 1982-83 season is dramatic and discouraging. This is illustrated in the following table, showing that the USSR imported 26.5 mmt from non-U.S. sources in the 1980-81 season and will import 29 mmt of grain from those sources in the 1981-82 season. At a minimum, the Soviets can probably buy 26-30 mmt from the rest of the world year-after-year in the early 1980's (as shown in the Table for 1982-83).

USSR Grain Imports, By Source
(July-June year)

	1979-80	1980-81	1981-82	Projected 1982-83
	million metric tons			
U.S.	15.2	8.0	11.0	0-6
Argentina	5.1	11.2	12.0	11-12
Canada	3.4	6.9	8.5	8-9
Australia	4.0	2.9	2.5	2-3
EC	0.9	1.1	2.5	2-3
Others	1.8	3.9	3.0	2-3
Misc. Grains (All Sources)	0.6	0.5	0.5	.5
Total	31.0	34.5	40.0	25.5-36.5

(B) The U.S. May Lose All Exports to the USSR in Some Years. Optimists may say that the USSR has imported 31-40 mmt in each recent season and will inevitably need to come to the U.S. for large tonnages each year. In fact, recent years have been unusual years, in comparison with the 1970's. The 1979, 1980, and 1981 Soviet harvests fell short of their official targets which averaged 233 mmt by 25 percent, or some 59 mmt per year. A shortfall as large as 59 mmt per year was unusual, even for the USSR, where farm production is notoriously unstable.

Such seasons will happen again, possibly soon. However, there will also be fair to good seasons when USSR grain production is 200-215 mmt and fine seasons when production may exceed the 1978 record. When such seasons occur during the early 1980's, there is little reason to expect the U.S. to sell much or any grain to the USSR. As shown in the tabulation below, the Soviets could harvest as little as 190 mmt in 1982 or 1983, maintain feeding at or near their recent high levels or probably well above their 1981-82 level (if the 1981 harvest was well below 175 mmt), and import only the 26-30 mmt available from the rest of the world.

Current and Prospective USSR Grain Balance

		Total Production	Imports	Total Use	Feed	Stocks
		million metric tons				
1980-81		189	34.5	225	119	+2
1981-82						
	(a) USDA	175	42.0	216	120	0
	(b) Low	155	40.0	194	97	0
1982-83	(a) High	215	26.0	229	122	+10
or	(b) Medium	200	29.0	226	120	+5
1983-84	(c) Low	190	30.0	220	115	0

This possibility shows how misleading it is to argue that U.S. grains alone, or grains plus our limited exports of other products, can exert material and sustained political leverage on the USSR. Only when Russia's needs are extraordinary (greater than 26-30 mmt per year) and/or when supplies from other grain exporters are unusually low could the U.S. alone exercise great leverage by cutting off agricultural exports and that would probably be only temporary. This is not to say that a U.S. or a joint U.S.-allied trade embargo would not damage the USSR. Rather, it suggests that damage would be sporadic and limited most of the time.

With the support of all the other major grain exporters or in years following very poor USSR crops and high import requirements, the U.S. would have some political leverage on the USSR. However, it should be remembered that USSR meat consumption at half the U.S. level, is not so low as to generate serious problems if meat suppliers were reduced or could not be increased. The option of reducing meat consumption targets in the USSR, cutting off or reducing the need for large and constant grain exports, is also an option for the USSR. In fact, some argue that this is how and why a grain embargo should be used to force a reduction in diet quality, leading possibly to internal discontent and political disruption.

(C) A Doubtful Future for the U.S.-USSR Grain Agreement. The 1975 Agreement under which the USSR agreed to buy at least 6 mmt U.S. grain and the U.S. agreed to sell and deliver at least 8 mmt per year through September 1981 was in part a logical successor to the "stop and go" U.S. trade actions of 1973-74-75. The U.S. stopped or stalled exports of grains and/or oilseeds on three occasions in those years, once to the world and twice to the USSR or Eastern Europe.

The U.S.-USSR Agreement grew out of these actions since it both reassured the USSR that we would ship certain minimum amounts and reassured the U.S. that our farmers could count on a certain level of export sales. The U.S. initiated and pressed the 1975 talks that led to the Agreement, even though the popular wisdom was that "Russia needs us more than we need them." It was

a diplomatic event, negotiated largely by the Undersecretary of State, not an agricultural event. The U.S. has offered the USSR large quantities of grain above the 8 mmt level each year, at our initiative and without ever having a formal request from the USSR for more grain.

This result was partly a matter of form; the U.S. is more open than the USSR, and our grain supply levels are well known. Our officials would wait for the Soviets to ask, during a consultative meeting, for the grain we were sure they needed. Eventually we offered it unilaterally in most cases.

Even though the Soviets have now learned that they can buy 25-30 mmt of grain per year from non-U.S. sources, some advantages remain for them to buy as much U.S. grain as possible, however. We are more certain than any other country to have large exportable supplies in a bad year; we carry most of the world's reserves; and we can perform better than most other exporters on shipping schedules.

In 1982, however, there are very few reasons for the USSR to want a new agreement with the U.S. The USSR:

- Has agreements with most other grain suppliers.
- Can get all the grain and oilseeds it needs in many years without buying in the U.S. market, as shown above.
- Can buy in the U.S. market at any time (barring a general export embargo) without an agreement.
- Is unlikely to want a grain agreement with the U.S. as a political action. The U.S. will have to beg to get into a new negotiation, although one or more annual extensions of the existing agreement might not be so difficult to arrange at our initiative.

(D) Increased Export Capacity in Other Countries. Spurred partly by the strong demand for grains and oilseeds in the 1970's and by their own increasing grain output, Canada, Australia, and Argentina have increased their export loading capacity in recent years and are continuing to do so. This is illustrated by the total volume of grain shipped, as listed below. Note that Canada will export 7 mmt, or 41 percent more grain in the 1981-82 season than six years earlier. Australia will export 23 percent and Argentina 70 percent more than the 1975-76 season. These developments cannot be attributed solely or even principally to U.S. trade policies. But U.S. actions on agricultural exports have surely accentuated private and public actions and decisions leading to greater grain production and exports in other countries.

Wheat and Coarse Grain Production and Exports
from Competing Exporting Countries

	Canada	Australia	Argentina
	million metric tons		
1975-76			
Production	37.1	17.6	21.0
Exports	17.2	12.3	10.2
1980-81			
Production	41.0	16.0	28.9
Exports	21.6	12.8	13.7
1981-82 est.			
Production	50.2	23.0	25.3
Exports	24.3	15.1	17.4

Competing grain exporting countries have made major efforts to increase their production and export capacity, as follows:

Canada:

- Built a new export elevator on its west coast at Prince Rupert;
- Invested heavily in hopper rail cars; and
- Is attempting to modify its rail rate structure to improve its capacity to move grain by rail.

Argentina:

- Altered its grain policies to allow producers to receive world prices for grain and oilseeds in an attempt to spur production; and
- Encouraged private firms to invest in inland grain origination and export elevator facilities and in soybean processing, much of which has been completed and more is underway.

Australia:

- Improved their export capacibility; and
- Encouraged grain production through providing producers with higher advanced payments at the start of each crop year.

Even after adjusting for fluctuations in production and exports due to weather, competing exporting countries are already increasing their grain exports as the above table shows. These developments mean that the U.S. faces growing competition from other exporters, especially in years when the USSR is able to reduce its grain imports sharply from recent levels.

The U.S. role of a residual supplier may be further reinforced because the U.S. is the only major exporter that has explicit programs to support commodity prices and to reduce production through idling acreage in times of large supplies and weak demand. There is a real risk that U.S. price support levels will impair our price competitiveness in relation to other exporters.

The U.S. has also added substantial exporting capacity since 1975, much of which is idle in 1981 and 1982 because of the slowdown in exports, arising from limited shipments to the USSR, the general slowdown associated with economic recession abroad, and the strength of the dollar against world currencies.

5. Probable Costs of Maintaining the Present De Facto Embargo or of an Official Embargo on U.S. Exports to the USSR, 1982-85.

Since early January, 1982, the Reagan Adminstration has been considering a general embargo against exportation of any U.S. products to the USSR and possibly to Poland and other countries of E. Europe, to be applied under unspecified political conditions. These are generally thought to be: (a) more serious repressions in Poland than took place in late 1981 and January 1982; or (b) failure to lift martial law and to begin to restore certain rights to the Polish people at an early date.

The President and others in the government have repeatedly stated: (a) that such an action would be taken only if it could not be avoided; and (b) that agriculture will not be singled out in any trade sanctions against the Soviet Union. Both these conditions are ambiguous, since the President can avoid such an action if he chooses, and because agriculture eventually will bear most of the costs of such an action.

It is inherent in the composition of U.S. exports to the USSR that agriculture and especially grain is singled out by such an action. In recent years, our agricultural exports, mostly grains, have been about 80 percent of our total exports to the USSR in value terms.

As a result, a general trade embargo is essentially a grain embargo. A few large U.S. companies, but no major industries apart from agriculture, transport and farm suppliers would be seriously endangered by a general economic embargo. The ultimate effects, of course, would spread thorughout the economy as shown in Section 3.

Indirect, intangible, and future effects of both the 1980 action and its unofficial resumption in 1982 have far reaching implications for the U.S.

- The U.S. has become the residual instead of the principal supplier of agricultural products to the Soviet Union.

- The U.S. may export only very small tonnages or perhaps no grain at all to the USSR in some future years under certain economic and political conditions.

- It will be very difficult to negotiate a favorable U.S.-USSR grain agreement in view of export availabilities from other countries.

- Encouraged both by an expanding world grain market in the 1970's and by U.S. "stop and go" export policies, other exporting countries have increased both their transport and loading capabilities and their grain production.

A general trade embargo banning the export of U.S. goods to the Soviet Union in 1982 would almost inevitably cut off or seriously reduce this trade for many years. Such an action would be inherently an action whose direct impacts would fall principally on the farm sector and allied industries, since most of our exports to the USSR are of farm origin.

If such an action prevented the shipment of 24 mmt or 945 mil. bu. of corn over three years, plus 12 mmt or 441 mil. bu. of wheat and 3 mmt or 110 mil. bu. of soybeans before it could be ended in (say) 1985, the overall economic costs would be as shown in the table below.

Impact of Lost Exports to USSR in 1982-85 on the U.S. Economy

	Nationwide Losses In		
	Output	Employment	Personal Income
	- $ mil -	- Man Years -	- $ mil -
Corn	$16,588	458,346	4,365
Wheat	11,474	302,731	3,260
Soybeans	4,814	124,740	1,368
Total	$32,876	885,817	$8,993

USSR Grain Balance

Year Beginning July 1		Supply				Disappearance				Stock Change
		Production	Imports	Exports	Total Supply	Total Use	Food, Seed Ind.	Waste	Feed	
					(million metric tons)					
Total Grain										
1977-78		196	18.9	2.3	213	228	77	29	122	-16
1978-79		237	15.6	2.8	250	231	78	28	125	+19
1979-80		179	31.0	0.8	209	225	78	22	126	-16
1980-81		189	34.5	0.5	223	225	78	28	119	- 2
1981-82	(USDA)	175	42.0	1.0	216	216	79	18	120	0
	Low	155	40.0	1.0	194	194	79	18	97	0
1982-83	High	215	26.0	2.0	239	229	79	28	122	+10
	Med.	200	29.0	2.0	227	226	79	27	120	+ 1
	Low	190	30.0	2.0	218	218	79	25	114	0
Wheat										
1977-78		92	6.6	1.0	98	108	51	14	44	-10
1978-79		121	5.1	1.5	125	107	50	14	43	+18
1979-80		90	12.0	0.5	102	116	51	11	54	-14
1980-81		98	16.0	0.5	114	116	52	15	49	-2
1981-82	(USDA)	88	19.0	0.8	106	106	52	9	45	0
	(SA)	75	18.0	0.8	92	92	52	9	31	0
Coarse Grains										
1977-78		93	11.7	1.0	103	109	21	14	74	-5
1978-79		105	10.0	1.0	114	113	22	13	79	+1
1979-80		81	18.4	-	100	102	22	10	70	-2
1980-81		81	18.0	-	99	99	21	12	66	0
1981-82	(USDA)	77	22.0	-	99	99	22	8	69	0
	(SA)	70	21.0	-	91	96	22	8	61	0

Mr. ARNDT. Thank you. I'll rapidly move on through the testimony. There are some tables and things in there concerning our long-term agreements, embargoes. I think we also have to understand that the Soviet Union has from time to time made some effort to pressure our markets and I think we have to recognize this and go back to this spacing of purchases that we talked about before and the fact that consultations are necessary to anticipate their needs and that our markets and our farmers need to know that.

I'd like to point out, of course, that we had 75 percent of the trade with the Soviet Union prior to the embargo situation and we are down now to 25 percent and the fact that sanctity of contracts is an important part of that I think makes this all the more important. We have been, as farmers, putting money into market development. That also is in question under conditions like this. How much do you really try to go out and stimulate a market and sell in it if you can't make delivery or deliveries are uncertain?

I think we're interested in using food wherever possible to promote peace and I think that the fact that the Soviet Union has to use hard currency to buy our food and thus have less to spend on defense is certainly a factor that everyone has to look at at this particular time and take a good, solid look at it.

I think the President is in a very tough position inasmuch as he has a very positive human rights stand and here he finds himself standing between some hungry people, especially in Poland and the potential for that in the U.S.S.R., on one side, and suffering probably as a result of that, and a mountain of surplus food in the United States with the United States cutting back in production. It certainly makes his decisions in this area very, very difficult and we recognize that and we recognize your efforts. We realize that it's tough and hard. It's tough and hard out in the country too. We're down at the bottom and your efforts and the efforts of the President at this time will certainly be appreciated and certainly will add to the strength of the business and to our economy and in the agricultural community. I thank you for the opportunity to appear. I appreciate your time.

Senator LUGAR. Thank you very much, Mr. Arndt. Let me respond just briefly because the questions that you've raised are important ones and witnesses may have additional answers beyond those that I would offer. But clearly, you're correct that the President must have a full array of foreign policy and strategies, and I suspect that you are not wanting to question the constitutional rights of the President to conduct foreign policy by anything that we are saying here today inherent really in this discussion, and the talk about the 180-day sanctity of contract is I suppose an implicit idea that the President may use trade sanctions from time to time among all the various things that he does.

Granted that the burden of our testimony as Senators and witnesses will be to discourage that type of use, particularly in terms of agricultural commodities. What I think that we are surely saying is that without conceding the thought that there will ever be another embargo, agricultural policy has already discouraged in the farm bill that we passed last year making it prohibitively expensive to have an exclusive embargo with regard to agriculture.

Leaving that aside, we're saying even then, if the President should decide upon that option, a sanctity of contract for a period of time is very important if we are to have any continuity and confidence in foreign trade, that throughout all these discussions in the press and diplomats and what have you, it's desirable to have this degree of certainty. Probably the futures markets are assisted in their understanding by this because embargoes are discouraged if for 6 months they really do not take effect.

I think one can argue in a logical fashion, a President looking at the various weapons that he has as foreign policy, is unlikely to select one in the Polish case or some other case if nothing is going to happen effectively for 6 months. He would probably push on to other alternatives. There is no certainty with regard to contracts beyond 6 months in the futures markets but there is very little certainty in the current situation.

We are trying to, I suppose, to bring some better bearing to all of this discussion. I would think finally that I don't know whether 6 months is the correct time or whether 1 year is or whether 9 months is, and we'll be asking each of you more about that in a moment as you try to think through the technical aspects. I do recognize that we have a tortuous path of compromise to reach here which many people in American diplomacy that do not like the idea of this legislation or any kinship to it at all who would feel that even discussion of restrictions of the President's policies in this way is inappropriate.

So in a sense, the original draft of S. 2357 tried to strike some compromise, given diplomatic history in this area, as well as agricultural and trade realities and these, I suspect, we will have to continue to work with as we progress.

But I appreciate the questions that you've raised. They are very pertinent and I'm certain will be raised by opponents of the bill with much greater force and perhaps a different conclusion after they have raised them.

Mr. Hall, we appreciate your coming today to be with Mr. Arndt.

I'd like to call now on Mr. Donald Loeslie, vice president of the National Association of Wheat Growers of Warren, Minn.

STATEMENT OF DONALD LOESLIE, VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WARREN, MINN.; ACCOMPANIED BY CARL SCHWENSEN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, WASHINGTON, OFFICE

Mr. LOESLIE. Thank you very much, Senator. With me is Carl Schwensen, our executive vice president of the Wheat Growers. I am a wheat farmer from Warren, Minn., and the national association is very pleased to be able to have the opportunity to present our views here this morning.

[Complete statement follows:]

STATEMENT OF DON LOESLIE, VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS ON GRAIN EMBARGOES AND CONTRACT SANCTITY

Mr. Chairman and members of the subcommittee: The National Association of Wheat Growers appreciates this opportunity to present its views on export trade restrictions and the sanctity of commercial contracts. I am Don Loeslie, a wheat

farmer from Warren, Minn. and vice president of the National Association of Wheat Growers.

Wheat is an export commodity, and at least two-thirds of each year's production must be exported if farmers are to have any hope of achieving adequate prices. This growing dependence on exports has increased fluctuations in market prices and farm income, and it has also placed the farmer in a position where foreign policy developments can inflict great economic damage. Moreover, the use of food as a foreign policy tool creates doubt among our customers over the reliability of the U.S. market. Targetted nations are not the only ones who question a policy of becoming dependent on U.S. supplies, since other nations may not wish for the same reasons to become tied to U.S. export policies.

Since the opening of the 1970's, the U.S. has followed a path of increasing market orientation in its agricultural policy, and this course was accelerated by the Agriculture and Food Act of 1981. Sadly, however, successive Presidential administrations have failed to respect the principles of this policy in the conduct of the nation's trade.

The 1973 soybean embargo was the first clash with market-oriented farm policy. In 1975, again for domestic political purposes, all grain sales to the Soviet Union and Poland were halted. The 1980–81 Soviet embargo was implemented for national security and foreign policy reasons, and an attempt was made to enforce a multilateral suspension of sales to the U.S.S.R. However, of the 5.7 million tons of suspended U.S. grain that the Soviets were able to replace during the period of the embargo, 68 percent was shipped from countries which had informally agreed to cooperate with the U.S. grain sales suspension.

Unfortunately, the influence of the government in export markets did not cease with President Reagan's April 1981 termination of the 16-month-old Soviet grain embargo. The belief that unilateral trade sanctions could be effective in changing foreign behavior obviously continued, because in December 1981 a new set of sanctions against the Soviet Union was applied. These include the postponement of United States-Soviet talks on a new grain agreement, and this sanction continues to be in force. As a consequence, farmers have no knowledge of the future conditions which will control United States-Soviet grain trade.

Mr. Chairman, the threat of Government-imposed export sanctions is alone damaging to grain prices and sales prospects, but the deepest injury comes from actions which cut across valid contracts and nullify bona fide sales. This happened in 1973 and again in 1980, and it has given importers good reason to question the sanctity of agreements which have been concluded for the purchase of U.S.-origin grain.

In this regard, it is worth noting that U.S. grain exports no longer have unique status when it comes to export controls. President Reagan's application of export controls to oil and gas equipment and technology connected with the Siberian pipeline also involves valid contracts. One can see that such developments go beyond the question of U.S. trade with the Soviet Union.

Wheat farmers do not argue against the use of export controls to further the nation's security, when it is determined that exports contribute to the military potential of an adversary. However, we feel strongly that any use of controls for national security or foreign policy purposes should be applied only with the cooperation of other nations. Under these conditions, the government must also carry out the responsibility it has to protect the income of those who would be directly damaged by its market intervention.

A clearly stated U.S. export policy must be established. President Reagan provided the foundation for such a policy in his March 1982 farm export statement where he promised no restriction on farm products due to high prices, that farm exports will only be used in foreign policy as part of a broader embargo, and that markets must be freed of trade barriers and unfair trade practices. Measures before this subcommittee, including S.J. Res. 185, S. 2410 and S. 2357, would further define U.S. export policy. We support each of these proposals.

Successive export trade restrictions have damaged U.S. farmers and valuable export markets. We must reestablish our reputation for reliability in world agriculture trade, and we must regain the trust of commercial buyers. There is no better way to do this than to provide buyers the assurance that they will be able to take delivery of farm products covered by valid contracts. We hope that this principal can become a pillar of U.S. trade policy.

The 1980–81 Soviet grain embargo provides persuasive evidence that unilateral trade sanctions do not work. Competing exporting nations have since reduced the U.S. share of the Soviet market from over 70 percent to about 20 percent. Moreover, these nations have expanded production solely for the Soviet market, and they have concluded long-term sales arrangements to "lock-in" their enlarged shares of this

market. Clearly, U.S. export policy should recognize that only the concerted action of major trading countries can hope to achieve intended results. This fact is a major feature of S.J. Res. 185, and we feel it too should become an integral part of U.S. policy.

Mr. Chairman, the United States must have a predictable export policy for farmers to be able to respond to market signals and assess the demand for their products. Importers too must know the circumstances controlling their trade with the United States. We have a great potential to enhance our earnings from export markets, and positive action on the measures before this subcommittee will greatly improve our future opportunities.

Thank you very much for this opportunity to appear before the subcommittee. I will be pleased to respond to questions at the appropriate time.

Senator LUGAR. Thank you, Mr. Loeslie, and we welcome Mr. Schwensen and am glad that he could accompany you.

The questions I would like to initiate are ones that are primarily for the information of the committee and the filling out of this record. Some of you may have information that would assist us in this respect and so let me ask the questions and if any of you have a response, please so indicate and I will recognize you.

FEDERAL GOVERNMENT BUYS WHEAT CONTRACTS

During the 1980's grain embargo several million metric tons of previously contracted grain shipments were cut across and eventually bought out by the Commodity Credit Corporation.

To your knowledge, does the CCC still own any of the grain from these contracts or do we know in the trade what the status of this grain might be at this point?

Mr. SCHWENSEN. Yes, Senator; 4 million tons of cancelled wheat contracts were kept in CCC hands in the form of the international emergency grain reserve. Those stocks are still held by the Government.

Senator LUGAR. Besides the revenue that has been lost as a result of the declines in net farm income, do you have any figures, including storage and interest payments, as to how much it has cost the Federal Government to buy out these contracts? That would be, I presume, the 4 million metric tons that you just mentioned. Do we have any idea what was paid for that, what the cost might have been, including the storage and interest?

Mr. SCHWENSEN. Well, we certainly, Senator, can provide that for your subcommittee's record. In the case of the wheat, it continues to carry storage charges as it's kept in Government bins. I'm sure that there are figures with regard to the total cost to the Government of the corn purchases and wheat purchases.

Mr. LOESLIE. It has been reported that the U.S. Government outlays for purchases of embargoed commodities, and costs associated with the assumption of delivery contracts from various grain companies have totaled approximately $3.4 billion. But in addition to this, producers have lost approximately $7 billion due to market disruptions and declining commodity values following the embargo.

Although the embargo required the Soviet Union to spend an additional $1 billion to acquire their import needs from alternate sources, this additional cost did not result in a decrease of Soviet imports which had been anticipated before the embargo was imposed.

The cost of the embargo to the U.S. economy, and U.S. farmers, in particular, has been much greater than any financial losses or other hardships which the Soviets may have suffered.

Senator LUGAR. Mr. Schwensen, if you could, describe the nature of these costs. In other words, when the 4 million metric tons was put in this emergency reserve, how did the Federal Government go about doing this? What was the net effect in terms of the practical working out of that embargo announcement in January 1980?

Mr. SCHWENSEN. Well, in this case the net effect was to keep that 4 million tons of grain from coming back onto the market as available supplies and further depressing the wheat prices which were prevailing at that time.

Senator LUGAR. So CCC would have paid whatever the market price was of wheat at that time for 4 million tons?

Mr. SCHWENSEN. Yes, Senator. I think some of your later witnesses in the grain merchandising community can provide a more accurate response, but the prices for those contracts were calculated based on when they were entered into and there was USDA oversight of that business and subsequent to that I think there's been GAO review of the pricing of those contracts as well.

REGAINING LOST MARKETS

Senator LUGAR. Now we've discussed the decline in the market share the United States has experienced as a result of past decisions to embargo grain shipments. In the judgment of any of you, can the United States regain those lost markets and, if so, in what timeframe with regard to the struggling farm economy now or in the years to come? In other words, is this regainable or permanently lost or, in your judgment, really where do things stand?

Mr. HALL. We believe that it's regainable. There are a variety of factors that influence the posture, the capability of the United States as a trading partner. Certainly the sanctity of contract thing would be one positive illustration of the U.S. willingness to make the commitments necessary.

Other factors that would also influence our ability to serve as a good trading partner would include many of the results that we hope to see as a result of the economic policies that are being implemented at this time—a stable domestic economy, a solid dollar, a stable dollar in international markets, a predictable inflation rate—all lead toward a productive domestic agriculture. The long-term need to our ability to serve as a useful trading partner obviously has to include a sustainable and profitable agriculture.

Mr. LOESLIE. It would seem also, from a business standpoint, that the longer we waited to aggressively try to regain the Soviet market, the more difficult it would be to get it. The Soviets definitely are going to need the food imports so, therefore, it would only be logical that they would try to tie up longer range to encourage more production in some of the other exporting countries.

Senator LUGAR. Do any of you know whether the United States provides contract assurances for the exportation of any nonagricultural products? Is there any parallel of this situation of export sanctity in the nonagricultural sector?

[No response.]

Senator LUGAR. Well, if not, I'll let that one pass and seek additional information.

Have our export policies, in your judgment, with regard to the Soviety Union interfered with our normal trade relationships with other countries? Mr. Baize.

Mr. BAIZE. You would have to say if you go back to the 1973 embargo or the 1975 embargo and the 1980 embargo, that in each case we reminded countries like the European countries, the Japanese, that the United States will use food exports as a tool of diplomacy. If you track back to the 1973 embargo, on soybeans, you can probably put much of the reason for the Japanese current reluctance to reduce its import barriers on several important items to the fact that in 1973 they were shown how vulnerable that they could be to their own lack of food self-sufficiency.

So in fact the embargo has had an impact of providing the incentive for protectionist agricultural systems in other countries. These systems increase barriers to our exports. So embargoes do impact our trade.

Mr. HENDERSON. I think, too, Senator, that our trade delegations to Japan and the European economic community, as I pointed out in my testimony, found what Mr. Baize is saying to be very true.

I think in a broader sense that the questions that are being raised here are symptoms of what the residual effect of embargoes certainly can be. It would be my observation that probably an effective foreign policy tool, one that is really effective, doesn't raise too many questions; and we can see how many this one has raised and is raising. And the bottom line still is the damage that's been done to U.S. agriculture and to our entire economy.

And then just turn the coin around and take a look at what it was designed to do and what it was supposed to do in getting Russia—which, one, it was supposed to get them out of Afghanistan and, two, get them then out of Poland—and I think we can see the results and it's not too difficult to answer the question from there.

TERM OF SANCTITY

Senator LUGAR. Let me ask if there is any further comment—in some of your prepared texts there already has been comment on the length of time of the sanctity of contracts, whether 6 months is appropriate. Some have suggested 9 months, some 1 year. Perhaps there would be other suggestions. But do any of you have anything further to add to supplement the record on that? Mr. Hall.

Mr. HALL. Well, Mr. Arndt raised the question of the sanctity of contracts as a proper vehicle. There were just some questions we had, Senator Lugar, that we felt we could get an expert answer and we'll probably get it in the trade panel that's before you next. But the National Corn Growers thought that Senators Dixon and Percy's bill to amend the Export Administration Act last year was an excellent approach to provide some long time, really no specificity, but long-term assurance that this would not happen again. As you know, as Senator Dixon said this morning, that failed and we still have concern as corn growers that the Export Administration Act would be the overriding instrument that would be invoked by

the President notwithstanding other features which we've seen in the past. I just wanted to make that clear for the record if I could.

Mr. HAWLEY. An additional point on that, Senator, the longer the term of sanctity provided for in the bill, the longer we would encourage the contract period to be extended. That doesn't necessarily or automatically work to the benefit of the American farmer. As you so correctly pointed out, there are no guarantees. There are no long-term assurances of what the market conditions will be on agricultural commodities; 6 months from now, 9 months from now, or, 12 months from now. We might dearly love to have the opportunity to renegotiate contracts or to initiate contracts in light of new market information indicating stronger markets.

Some of the other witnesses have spoken in support of the concept of a long-term agreement somewhat in the context that we were just discussing. As you are aware, the Corn Growers have not been supportive of a long-term agreement for some of the reasons that I just mentioned. There are no long-term assurances.

Additionally, it is ironic. Russia is relatively a small market for agriculture. Of our $140 billion sales, they pick up $1 billion, maybe $1.5 billion, occasionally $2 billion worth of that market, less than a significant portion of our sales, particularly in light of the regular consumption by a country as small as Japan of $15 billion to $17 billion worth of our commodity. Russia is obviously an important customer in the context of being a swing customer, being a residual customer, being an emotional customer. But the future of agriculture is not dependent on a long-term agreement with Russia.

Senator LUGAR. A point well taken, and on that point I will thank this panel. I've just had through the buzzer an announcement of a vote on the floor and therefore I will recess the hearing for 10 minutes, go vote and return, and welcome the next panel. But I would be remiss if I failed to point out our appreciation to each one of you for your initial statements, the remarks that you made in response to the colloquy that was a part of this panel and your forthcoming answers to our questions. Thank you very much for coming.

We'll recess for 10 minutes and then we'll proceed with the next panel.

[Recess.]

Senator LUGAR. The hearing will come to order again.

At this time the Chair welcomes a Grain Trade Panel that will consist of: Robbin Johnson, assistant vice president of Cargill, Inc., Minneapolis, Minn., accompanied by Alan Holbert, public affairs office of Cargill;

Phil St. Clair, vice president of Agri-Products Division, A. E. Staley, Decatur, Ill.

Donald N. Chartier, president of the FAR-MO-CO Division, Farmland Industries, Hutchinson, Kans., accompanied by Dave Fulton, vice president of government affairs, Farmland Industries, and Jerry Waters, the Washington Representative of Farmland Industries; and

Bernard Steinweg, vice president of Continental Grain, New York City.

Gentlemen, we appreciate your coming this morning. As I mentioned to the previous panel, we are hopeful that your initial com-

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ments might be summarized in 5 to 7 minutes of time and then we'll proceed with questions of the panel and interaction that you might have.

Mr. Johnson, it's a pleasure to have you again before this committee. We appreciate your testimony.

STATEMENT OF ROBBIN S. JOHNSON, ASSISTANT VICE PRESIDENT, CARGILL, INC., MINNEAPOLIS, MINN., ACCOMPANIED BY ALAN HOLBERT, PUBLIC AFFAIRS OFFICE, CARGILL, INC.

Mr. JOHNSON. Thank you very much, Mr. Chairman. I want to thank you for putting together these hearings. I think without your initiative and support we wouldn't have been able to bring this issue this far, and I think you are hearing about the strong support that exists in agriculture for the concept of contract sanctity legislation.

I have a prepared statement that I would like to submit for the record.

Senator LUGAR. All of the statements of each of you will be published in full in the record.

[The complete statement follows:]

Testimony on Contract Sanctity Legislation

before the

Subcommittee on International Finance and Monetary Affairs

of the

Senate Committee on Banking, Housing and Urban Affairs

by

Robbin S. Johnson

Assistant Vice President

Cargill, Inc.

July 29, 1982

Mr. Chairman and Members of the Subcommittee:

I am Rob Johnson, Assistant Vice President, Cargill, Inc. I am appearing today on behalf of Cargill to express our support for proposed legislation to restore the integrity of grain export sales contracts. This can be done by exempting them from future foreign policy export controls except under carefully limited conditions.

I would like to address three questions in my prepared comments and then would be happy to answer the subcommittee's questions. The three central issues raised by "contract sanctity" legislation seem to be: why is such legislation needed, what form should it take and how will it affect America's foreign policy interests?

Why Needed

U.S. agriculture has experienced four embargoes in eight years. The last embargo, imposed by President Carter January 4, 1980, not only limited future U.S. grain export sales to the Soviet Union. It also cut across (that is, prevented shipment on) 13.5 million tons of existing contractual commitments.

This "contract cut-across" depressed farm prices and incomes, snarled agricultural transportation and elevator operations and seriously damaged America's reputation as a reliable supplier. These harsh effects would have been minimized had contract sanctity legislation been in place.

Cutting across any commercial contract creates the potential for economic loss, but the problems are especially acute in commodity trade. One reason is that agricultural export sales are made at prices prevailing on the contract date for shipment as much as 6, 9, or 12 months forward. Exporters hedge those sales in futures markets to minimize risks of loss from changes in price levels between contract and shipment dates. They also book freight requirements forward.

Farm prices change as supply/demand conditions change, and the 1980 embargo is a good illustration of the risks involved. The Soviet grain purchase contracts cut across in that embargo were typically made at prices at or near market

highs for that marketing year. Cargill export contracts cut across were at prices roughly 20-25 percent above the market prevailing on January 4.

The cut-across eliminated the exporter's sale but left his cash and futures "hedges" and his forward freight bookings intact. In other words, grain exporters had covered their sales by purchasing cash grain or futures contracts at or near the sales contract price. When President Carter cut across the export sales, the exporter lost the sales but was left with the cash and futures contract purchases and freight commitments.

So, the contract cut-across transformed a commercially prudent, hedged transaction into a speculative long position. Unfortunately, market prices had already fallen significantly from acquisition price levels and threatened to go lower. The contract cut-across exposed exporters to huge, unanticipated losses. Their attempts to reduce these losses by selling their new uncommitted cash and futures contract purchases, in turn, threatened the entire grain marketing system with financial chaos.

Confronted by these unforeseen consequences of the cut-across, government was compelled to assume the exporters' cut-across contracts at an eventual net cost of roughly $450 million. Exporters were left to absorb losses

on their forward freight commitments. Not cutting across these sales would have avoided these large market risks and governmental costs.

Commodity markets have other attributes that make contract sanctity important to the total marketplace, not just affected shippers. Industrial product prices reflect manufacturing costs plus a return on capital. An industrial product contract cut across by an embargo costs the manufacturer his out-of-pocket expenses to date and foregone profits. It does not, however, affect the price of his other product sales.

Cutting across grain export commitments involves the same lost revenues on the sacrificed sales. More importantly, it also results in lost revenues on all grain sales--domestic and foreign--because of the price-depressing effect of removing an anticipated source of demand from the marketplace. Farmers pay three times over for a contract cut-across--once for lost business, a second time for reduced market prices overall and a third time for lost business over the long run to foreign competition.

A contract cut-across is pernicious in agricultural markets for another reason. Grain raised on American farms enters the elevator and barge-rail-truck networks as it flows toward foreign customers. The logistical task of managing this country's 5-billion-bushel export movement

(nearly three times the volume of a decade ago) means that grain is continually moving into and out of this marketing pipeline.

When export commitments are cut across, that grain cannot immediately be diverted to alternative domestic or foreign uses. Arranging alternative sales, vessels, shipping schedules and the like takes time. Meanwhile, the pipeline plugs, creating congestion that ultimately backs up to the farm gate. Grain that suddenly cannot be shipped encumbers the entire marketing system.

Moreover, most grain is bought for immediate consumption. The high cost of storage facilities and of financing inventories means that most importing countries typically carry an import pipeline of only one to two months' import needs. They depend on a steady flow of grain from exporters.

So, while reliable performance is important in all commercial dealings, it is vital to agricultural trade. Customers depending on a long supply line for crucial foodstuffs will, once burned by non-performance, understandably avoid depending on an unreliable supplier. And, since grain is readily available from other suppliers, a contract cut-across imposes enduring penalties on U.S. farmers and agribusiness.

To summarize, contract sanctity is needed for a number of reasons. It is crucial to minimize the risks and financial losses of any truly necessary embargo, and these costs are different in nature and size in commodity markets compared to industrial-product markets. It is needed to minimize logistical chaos throughout the grain marketing chain. And, contract sanctity is uniquely important to food trade because of the economic and political significance of reliable performance in delivering the staples of life.

What Form

The form that contract-sanctity legislation takes ideally would be open-ended. Contracts on the books should be fully insulated from any foreign-policy sanctions.

While that is the principle that should be adhered to, both foreign policy and domestic political interests compel compromise. In particular, compromise seems necessary in two areas--duration of the protection and providing an escape clause for extreme circumstances.

On duration, we would recommend that contracts for shipment within 9 months that have been reported under the Export Sales Reporting System be protected from a cut-across. The 9-month period is a compromise designed to preserve important competitive considerations without making the commitment open-ended.

Agricultural commodities are annual crops, and in some years significant amounts of business are done for shipment as much as one year ahead. This should be encouraged, as it smoothes out demand and facilitates better logistical planning.

There is also a northern hemisphere/southern hemisphere pattern to marketing that is important to bear in mind. A 9-month contract-sanctity period would enable exporters to offer U.S. crops in our post-harvest period for shipment into southern hemisphere post-harvest periods with assurance of delivery. In years of large U.S. harvests, this should strengthen our ability to build up needed exports for the benefit of U.S. farm incomes and foreign-exchange earnings.

More difficult is the issue of an escape valve. From agriculture's viewpoint, though all embargoes are painful, one that cuts across existing sales, rather than just future sales, is especially harmful. Agricultural interests, therefore, are particularly anxious to limit recourse to a contract cut-across.

On the other hand, foreign-policy interests seek to preserve the authority to cut across existing contracts to deal with extreme circumstances. Hopefully, such circumstances will not arise, but some provision needs to be made that allows for that possibility. This is necessary both to protect the President's foreign-policy authorities and to meet domestic political objections.

Given all of this, agricultural interests are seeking a two-tiered approach to foreign policy export controls. The first tier preserves authority to block additional sales but not to prevent shipments under existing contracts. This tier should meet the tests outlined in President Reagan's March 22 speech and the proposed Foley/Dole resolution: that future agricultural trade sanctions would be applied only as part of a general embargo under conditions sufficiently serious as to result in the effective cooperation of our allies.

The second tier would be even more restrictive. It would be defined by an escape clause permitting controls on current shipments as well as future sales. This tier would only be reached in a period of declared "national emergency." The important point is that more than diplomatic leverage should be involved. Vital national interests should be directly and immediately at stake, since cutting across existing contracts in commercial relations is extremely disruptive to markets and to the foundation of commercial dealings.

The purpose of contract-sanctity legislation, in other words, is twofold. First, it reassures foreign buyers that they will receive their purchases unless they themselves

take actions directly threatening U.S. security. With that assurance in the law, the United States again will be able to compete on an equal footing with other nations in meeting food import needs.

Second, it reasserts U.S. support for the principle of integrity of contracts. This principle is important for America's role not only as an exporter but also as an importer. Since the United States imports many important raw materials and products, it has a buyer's as well as a seller's interest in this fundamental commercial principle.

Foreign Policy Effects

We also believe that the foreign-policy benefits outweigh the foreign-policy costs of contract-sanctity legislation. In the first place, we are talking about honoring commercial grain export sales; we are not talking about subsidized sales or government-guaranteed credits. The Soviet Union, which in recent years has taken 15-20 percent of world grain imports, is an important player in this market. Sales to it are wholly commercial and very important to agricultural prosperity.

Second, agriculture makes important contributions to the American economy, which is the ultimate bulwark for all foreign-policy interests. It earns a foreign-exchange surplus that now regularly exceeds $20 billion annually.

Each $1 billion in export sales generates an estimated 30,000 U.S. jobs, most in urban industries supporting agriculture. A stronger agriculture contributes to a stronger dollar and a stronger economy.

Third, exports are agriculture's growth market, and U.S. farm policy is built on that premise. Domestic grain markets have largely levelled off while farm productivity continues to rise. Capitalizing on America's comparative advantage in grain and oilseed production means developing export outlets further. At the foundation of that export policy must be a clear, credible, tangible commitment to reliable performance. A failure to solve the reliability problem would undermine--and require rethinking of--our overall agricultural development strategy.

Contract sanctity, in other words, contributes to important economic needs of agriculture. That, in turn, builds a better base for a strong U.S. economy and the economic strength to conduct a confident foreign policy. Beyond this, however, are some other foreign-policy benefits.

Foreign-policy initiatives lose effectiveness when they appear erratic, inconsistent or unsustainable. Use of grain embargoes has driven this lesson home, since "light switch" commercial diplomacy simply prompts countries to seek out

and develop other, more reliable sources of supply. President Reagan's March 22 speech on future food export policy, if buttressed with contract-sanctity legislation, would provide clarity and coherence to this area of foreign policy. It would help close off counter-productive domestic bickering over attempts to use an illusory food power.

Respect for the integrity of commercial contracts would also put the United States more closely in line with the foreign economic policies of our principal allies. It brings us closer to the basis of cooperation needed if foreign-policy controls are ever necessary.

Contract sanctity also is important to the United States as a buyer of imported raw and strategic materials. Many of our allies are in the same position of dependence on foreign supplies for certain crucial items in their economy. In other words, the principle of integrity of contracts has far-reaching implications for the trade relations of the United States and its allies. It is an area where the United States should lead by example, as deviations from the principle could be used against it later.

Finally, a word should be said about the relationship between trade and detente. U.S. policy toward the Soviet Union since 1971 has been based on a rejection of economic confrontation as ineffectual and the development in its place of a policy of linkage. The concept of linkage has

been the subject of many interpretations and criticisms. For example, some have attacked expanded East-West trade on the ground that it has led to more restraint on the part of the West than of the East.

Others have pressed for a more explicit "carrot and stick" approach, offering trade concessions for progress in international relations and withdrawing trade when there is backsliding in foreign affairs. And more recently, some have returned to a kind of modified theory of economic confrontation--arguing that withholding commercial benefits will force internal changes in Soviet society and economic structure that will enhance prospects for peaceful coexistence.

What seems to emerge from this decade of experience with and debate over the fruits of detente are several lessons. First, trade in non-security goods on commercial terms has benefitted the United States, particularly U.S. agriculture. It also is tilting the Soviet economy toward more effort to satisfy demands of Soviet consumers for better diets. This is evidenced in the rising proportion of Soviet resources going into consumer food subsidies and agricultural investment. Selling U.S. grain to the Soviet Union is not, in Lenin's phrase, selling the rope with which to hang us. Rather, it is perhaps the best example of a philosophy Senator Humphrey captured when he said we should sell the Soviets "anything they can't shoot back at us."

Second, the question of whether or not to trade is distinguishable from issues involving the terms of trade or the range of products traded. Providing special terms for trade--credit guarantees or reduced interest rates or barter--might justifiably be linked to foreign-policy quid pro quos. What products to trade depends upon judgments about their uses and availability, and these judgments also may involve linkages to specific foreign-policy achievements.

But, trade on commercial terms of basic commodities for direct consumption readily available from other sources should now have justified itself. It is clearly different from the issues posed by high technology products, credit policies or pipeline issues. Moreover, the ineffectiveness of unilateral "stop and go" trade policies in this area should now have been established. They do not inflict real pain nor can they force restructuring of the Soviet economy.

Finally, contract sanctity does not change the president's ability to impose foreign-policy sanctions to block new sales. It merely requires that the additional step of blocking shipments on existing commitments be justified by the urgency of circumstances. In return, the United States would restore meaningful confidence in its role as a trade partner. It also would reaffirm the commercial and foreign-policy significance of contract performance--a right the United States has a vital interest in both as an exporter and as an importer of many crucial raw materials.

Conclusion

To summarize, contract sanctity has great importance to agriculture to avoid unnecessary financial harm, logistical chaos and market depression. It re-establishes the principle of contract integrity, which is of interest to the United States as both buyer and seller in world markets.

While a flat ban against cutting across contracts should be the goal in an ideal world, reality justifies some practical compromises. Protecting contracts for shipment within 9 months preserves most of the commercial values involved. Permitting a cut-across in a "declared national emergency" is prudent, provided the meaning of that phrase is taken seriously.

Such an approach reinforces the economic foundation necessary for a confident American foreign policy. It outlines a policy that our allies could respect. It provides an opportunity to reverse a disturbing trend toward abrogation of commercial commitments. Its scope is limited to the shape of foreign-policy controls, not the authority to impose them. And, it provides some clarity to an East-West trade policy that has been twisted and pulled in too many directions over the past decade.

Thank you.

Mr. JOHNSON. And I'd like to highlight several points in that statement that may not have been emphasized as much by the other witnesses this morning.

First of all, contract sanctity legislation is designed to limit the scope of the President in cutting across outstanding export commitments. And that is particularly important for agriculture because so much of agricultural exports are contracted for periods of 3, 6, 9, or even 12 months forward. When exporters make those sales forward, they hedge those sales by buying in cash or futures positions and begin the process of booking freight to move that grain to market.

CUTTING ACROSS CONTRACTS

When a contract is cut across, the exporter loses the sale but is left with the cash and futures purchases that are the other side of that transaction, Typically in a falling market. Unwinding those long freight positions and those long cash and futures positions would create enormous market chaos, and it was the prospect of that problem and financial disaster that forced the Government in the 1980 situation to assume the exporters' contracts.

Incidentally, the assumption of those contracts by the Government alone, just the contract assumption portion, cost the Government about $450 million, which is a measure of the financial exposure that the exporters had simply because of the contract cut-across.

Cutting across contracts also forces that lost business back onto the market, and that depresses market prices overall. Commodity markets are different from industrial-product markets in that respect, and farmers end up paying not only for the lost sales, but also for the resulting depression of prices throughout the market place.

Because grain is constantly moving through a pipeline, when you cut across contract commitments, the pipeline clogs and it takes time to find alternative markets. In the meantime, the pipeline jams up and congestion develops all the way back to the farm. And we found in the 1980 experience that that, again, depressed agricultural prices.

So there are, in addition to the obvious reasons that were alluded to by other speakers, some very specific reasons connected with the nature of commodity markets that make contract sanctity so important.

The issue of the form of contract sanctity guarantees has come up several times, and I'd like to speak in particular to the issue of duration.

In our formal statement, we express support for protecting export commitments for shipment up to 9 months forward for several reasons. First, this encourages more forward-selling of grain in the crop year, which both smooths out demand, as other speakers have mentioned, and also aids logistical planning, so that we can move large quantities of grain overseas more easily. There is also a Northern Hemisphere/Southern Hemisphere pattern to grain marketing that is particularly important here. Southern Hemisphere feedgrain and soybean harvests come about 6 months after North-

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ern Hemisphere harvests. With a 9-month contract sanctity period, in years of abundant U.S. supplies, U.S. exporters could price those crops aggressively into the post-Southern Hemisphere harvest periods and with contract assurance, hopefully, build additional demand.

I did, on the plane coming down here last night, a very quick analysis of how important going from 6 to 9 months might be, and I'd like to mention one example.

In the 1980 grain embargo, Cargill had 2.3 million tons of corn contracts that were cut across. Of those 2.3 million tons, we had sold 1.6 million tons in July of 1979 for shipment October forward; 1.4 million of those tons were for shipment at least 6 months after the contract date. And 1.1 of those million tons, or roughly 70 percent, were for shipment in the seventh, eighth, and ninth months.

Now that may have been an exceptional circumstance, but I think it indicates the forward-contracting nature of this business and the importance of reaching the guarantee period out into something like 9 months, if we could.

BENEFITS FROM CONTRACT SANCTITY

Let me just conclude by emphasizing some of the benefits that I think will arise from contract sanctity legislation. In the first place, as all of the previous speakers have emphasized, it will reinforce the agricultural economy as the base for a confident and constructive foreign policy in this country.

It would also develop an embargo policy that our allies could respect. I would note that even when a member of the European Community was at war with Argentina and economic sanctions were applied by the European community, they were only applied prospectively. Contracts in force on the date of those sanctions were honored.

Third, it would end the trend that we have seen toward abrogation of commercial contracts, and this is important not only, as everyone has emphasized, for the United States as an exporter but also for the United States as an importer. We buy a number of raw commodities and strategic materials from other countries and we should not be setting an example that would suggest to them that they could abrogate their commercial contracts to us.

As you have mentioned, Mr. Chairman, the scope of contract sanctity legislation is limited to the form of sanctions and not to the fundamental authority to use them where necessary.

And finally, as I think we all know, we need some clarification of East-West trade policy because it has been tugged in too many directions in the past decade, and reasserting this fundamental principle, I think, is the beginning of providing that clarification.

Thank you.

Senator LUGAR. Thank you very much, Mr. Johnson. I'd like to call now upon Mr. St. Clair for his testimony.

STATEMENT OF PHILLIP M. ST. CLAIR, VICE PRESIDENT OF AGRI-PRODUCTS DIVISION, A. E. STALEY, DECATUR, ILL.

Mr. ST. CLAIR. Well, Mr. Chairman, thank you for the privilege of appearing before your subcommittee today. My testimony today

will show that Staley suffered an extensive loss of business and profit as a result of the 1980 embargo against the Soviet Union. We have been unable to regain that business because our reputation as a reliable supplier has unquestionably suffered due to our compliance with the embargo. I will also show that the U.S. agriculture business has lost a major market for its value-added products. It has been unable to regain this market and seems unlikely to do so, absent either a long-term agreement which includes value-added products, or a sanctity of contract guarantee, or possibly, even both.

Staley first became involved in edible protein sales to the Soviet Union in 1976. By then we had invested considerable expense and effort in a market development.

[The complete statement follows:]

STATEMENT OF PHILLIP M. ST. CLAIR, GROUP VICE PRESIDENT, AGRIPRODUCTS, A. E. STALEY MANUFACTURING CO.

Thank you for the privilege of appearing before your Subcommittee today. Your concern for the expansion of agricultural trade is applauded. The resumption and expansion of trade opportunities, particularly in the agricultural sector, must be seen as a key to economic health as we struggle with a deep recession. Surely, the unparalleled efficiency and capacity of U.S. agriculture can benefit the hungry people of the world. This capacity, if utilized fully, can create a chain of economic activity in this country with a beneficial rippling effect throughout the economy—if we can find a way to resume normal trade with customers who want our products.

I am Phil St. Clair, Group Vice President, Agriproducts at A. E. Staley Manufacturing Company, Decatur, Ill. Staley is a major corn refiner and soybean processor. Our five corn plants have a capacity capable of using about 3 percent of all the corn sold off farm in the United States. Our products from corn include a wide variety of sweeteners, starches and corn oil all used extensively in food and industrial products. Another product, corn feeds, is used in animal rations.

Our five soybean processing plants have a capacity capable of using over 5 percent of all the soybeans grown in the United States. Our products from soybeans include soybean meal which is used as a high protein feed ingredient, and soybean oil which is used as a food ingredient. We also manufacture a wide variety of sophisticated edible protein products.

Staley is 84 years old; 1981 sales were $2 billion. Our principal business is in the United States.

My testimony today will show that Staley suffered an extensive loss of business and profit as a result of the 1980 embargo against the Soviet Union. We have been unable to regain that business because our reputation as a reliable supplier has unquestionably suffered due to our compliance with the embargo.

I will also show that the United States agribusiness has lost a major market for its value added products. It has been unable to regain this market and seems unlikely to do so absent either a long-term agreement which includes value added products, or a sanctity of contract guarantee.

Staley first became involved in edible protein sales with the Soviet Union in 1976. By then we had invested considerable expense and effort in a market development. In 1979, prior to the embargo, 25 percent of all Staley edible protein sales were exported; 87 percent of these exports were to the Soviet Union. We evaluated the Russian market as having tremendous potential. We were in the enviable position of being on the ground floor as a prime supplier.

When President Carter announced the embargo on January 4, 1980, we were forced to cancel existing contracts totaling 2,800 tons of edible protein products. Because of this loss of business, we closed our Champaign edible protein plant and consolidated our business at our Decatur plant. Our loss on this contract alone was $1,000,000. This was not reimbursed because our products were not covered by any bilateral government Agreement. In spite of repeated efforts, we have been unable to sell to Russia since the embargo. Our potential losses in not being able to participate in this vast growing market in the past two years amounts to many millions. The business has gone to European firms—or U.S. subsidiaries in Europe. This has been particularly frustrating when we were one of the companies who pioneered the

market. I should also emphasize that these were value added products being sold for cash. No government credit programs were involved.

Our loss of sales has resulted in income tax loss to the U.S. Treasury, loss of farmer soybean sales and loss of jobs.

Even more discouraging were conversations our sales representatives had in Moscow during March and June 1982, where Staley was advised that it was the only company that did not fulfill its contract from another country or through third parties, and therefore, we must have defaulted from conscious desire and not legal compulsion. We cannot testify as to what other companies did or did not do, but the message from our one-time customer was clear, "We do not trust Staley.", and our chances for future business may be nil. Now we feel doubly jeopardized because of our stringent compliance with the Presidential decree.

I would emphasize that the world commodity trade places high value on the sanctity of a contract and the intent and integrity of the principals involved. Those that violate these values are not easily or quickly forgiven. There is clearly a heavy future cost to pay for sanctions that cut across existing agreements and contracts.

When one thinks of trade with Russia, one usually thinks of grain because of the large tonnages involved. Staley is not involved in grain exports so I will leave comments on that to others. However, I would like to quickly review the situation on soybean meal—another value added product that Staley produces and exports. In 1979, after several years of marketing effort by U.S. Agribusiness, the Soviet Union began buying soybean meal to increase the feeding efficiency of their feed rations. U.S. firms, including Staley, enjoyed 100 percent of this business. We were looking forward to being on the ground floor of a rapidly expanding market. Since the 1980 embargo, Russia has continued to take increasing amounts of meal—but none from the United States. It has all come from South American and European processors. We developed the market but someone else got the benefit.

Our industry is currently in a severe depression. We are operating at less than 70 percent of capacity and piling up losses. Many plants are involved in reduced operations with resultant layoffs. I know of at least four plants that have closed down on a long-term basis due to poor economics. We are frustrated to see Russia, with another short crop coming up, and obviously needing more soybean meal, buy 100 percent of its needs from European or South American processors. U.S. firms will be shut out because they are perceived as unreliable suppliers.

There is clearly a heavy future cost to trade sanctions in the form of increased competition that results. After the 1980 embargo, the Soviet Union concluded long-term agreements with Brazil and Argentina. Specifically, a 5-year trade package covering 1982 through 1986 was signed with Brazil providing for annual shipments of 940,000 tons of soybeans and soybean products. The Argentine agreement provided for a minimum of 500,000 tons of soybeans annually.

On July 20, Brazilian officials announced that Russia proposed expanding its trade agreement to 2 or 3 million tons per year. If Brazil expands its industry to fill this market, it will be almost impossible to reduce that production in the future. It will become almost permanent competition for U.S. Agribusiness.

In summary, the 1980 embargo caused Staley sizeable production profit losses. The losses continue. Because Staley complied with the President's embargo, Staley is viewed as a particularly unreliable supplier.

Similarly, the entire U.S. agriculture and agribusiness community is viewed as an unreliable supplier. Times are tough in this business and we need additional markets, especially for jobs generating value added products.

Russian crops are again well below their needs. Russia is a buyer of food products which we have in surplus. However, Russia will purchase grain from the United States only as a last resort and, on value added products, it appears that neither Staley nor any other U.S. plant will be a supplier in the absence of some contract delivery guarantee.

Something clearly needs to be done to correct this situation. There appears two courses open:

(1) A long-term trade agreement with Russia which includes value added products. There appear to be numerous objections to a new long-term agreement by the administration.

(2) A congressionally mandated sanctity of contract provision which would assure U.S. customers that any signed contract would be fulfilled in its entirety short of a break in diplomatic relations. This appears the most feasible means of taking the first step toward regaining the Soviet Union as a regular customer for agricultural products.

Failure to regain this market will only encourage agriculture and agribusiness competition from other countries.

Thank you again for the opportunity to offer this testimony.

Mr. ST. CLAIR. Senator, to further emphasize the point I'm trying to make on the long-term effect of trade sanctions, I would like to point out that Staley owns 100 acres of industrial development land in Memphis, Tenn., on the river. Our intention was to build a large export-oriented soybean processing plant on that site. As a matter of fact, we had even completed our preliminary engineering plans and have received all of our EPA permits.

That project is now on hold due to the poor economics in our industry and I would assure you if a new trade agreement promotes another government-supported increase in Brazilian soybean production and soybean processing, that could well be the kiss of death for that project. Clearly, something needs to be done to correct the situation. There appear two courses open:

First, a long-term trade agreement with Russia that includes value-added products. There appears to be numerous objections on a new long-term agreement by the administration. Recent press reports indicate that the administration is considering extending the present agreement for 1 year. I doubt that this would build our case as a long-term reliable supplier, and thus, keep the Soviet Union from expanding its agreement with Brazil. Also, it does not cover value-added products.

Second, a congressionally mandated sanctity of contract provision which would assure U.S. customers that any signed contract would be fulfilled in its entirety, short of a break in diplomatic realtions. This appears to be the most feasible means of taking the first step toward regaining the Soviet Union as a regular customer for agricultural products.

I'd like to make one comment on the length of the protection on contracts, Senator. Some of our products are value-added and they are fairly sophisticated products that require market development, development of the product itself, testing and whatnot. And it's very difficult to get involved in this type of sales effort and market development if all you can make is a 6 month contract. I would personally favor a 1-year type protection.

The failure to regain these markets would only encourage agriculture and agribusiness competition from other countries.

Thank you, again, Senator, for the opportunity to offer this testimony.

Senator LUGAR. Thank you very much, Mr. St. Clair. I'd like to call now upon Mr. Donald Chartier, president of the FAR-MAR-CO Division of the Farmland Industries.

STATEMENT OF DONALD M. CHARTIER, PRESIDENT, FAR-MAR-CO DIVISION, FARMLAND INDUSTRIES, HUTCHINSON, KANS., ACCOMPANIED BY DAVE FULTON, VICE PRESIDENT OF GOVERNMENT AFFAIRS, FARMLAND INDUSTRIES, AND JERRY WATERS, WASHINGTON REPRESENTATIVE

Mr. CHARTIER. Mr. Chairman, I am Donald M. Chartier, president of FAR-MAR-CO, Inc., in Hutchinson, Kans., a regional grain marketing subsidiary of Farmland Industries.

[The complete statement follows:]

TESTIMONY BY DONALD M. CHARTIER

PRESIDENT OF FAR-MAR-CO, INC.

Mr. Chairman and Members of the Subcommittee:

I am Donald M. Chartier, President of FAR-MAR-CO, Inc., the Hutchinson, Kansas, regional grain marketing subsidiary of Farmland Industries. Farmland Industries is an agricultural cooperative owned by 2,300 local cooperative associations. These local associations serve their 500,000 farmer owner/members in 19 midwestern states.

We urge the United States Government to formulate a comprehensive and demand-oriented agricultural export policy that enables the United States to play a realistic, consistent role in the development of the world's food and fiber economy. It is imperative that this policy serve both our own national interest and our shared interest with the rest of the world's people.

Mr. Chairman, we are encouraged by what we see as a growing recognition in Congress of the importance of agricultural trade to the economic welfare of the nation and a need to develop policy instruments to assure an expanding export volume. This hearing today is an example of this growing interest. We want to congratulate Senator Lugar and Senator Durenberger and others for the leadership they have shown in this area. We are pleased to have the opportunity to participate and to share our views with this committee.

Mr. Chairman, my testimony today is directed toward two objectives. First, I want to address the issue of sanctity of contract. Second, with sanctity of contract being an integral component of our agricultural export policy, I would like to integrate the sanctity of contract issue into the broad issue of developing a comprehensive, demand-oriented, agricultural export policy. This much broader issue has been voiced by Senator Dole and others who have introduced Senate Joint Resolution 185, an encouraging effort that vividly

reflects the growing commitment in Congress to strengthen agricultural trade efforts.

American agricultural producers started planting fence row to fence row during the 1970s as the world demand for grain exploded and the United States government promoted both more production and higher grain exports. The efficient manner by which United States farmers produced grain and United States firms marketed grain gave our nation a competitive advantage in a rapidly growing market. Recently the growth of world demand has slowed, and competing exporter nations have increased their market share at the expense of American farmers. Prominent among the factors hurting United States grain exports has been the uncertainty attached to United States export contracts as a result of previous administrations' use of food as an instrument of foreign policy.

The proposed legislation, pertaining to contract sanctity, will help restore the competitive advantage of United States grain producers and remove one of the sources of uncertainty now facing United States producers.

Reliability is an essential ingredient in agricultural trade. Since 1973, the credibility of the United States as a reliable supplier has been severely damaged as successive administrations have used food as an instrument of foreign policy. Because of FAR-MAR-CO's efforts to secure foreign markets for our farmer-owners, I can personally testify to the damage this loss of credibility has done. Restoration of that credibility will not be overcome overnight, and it can be achieved by several means. Sanctity of contract legislation may be the most direct method to alleviate the doubt which the recent embargoes have cast upon the reliability of the United States as a grain exporter.

The sanctity of contract issue can also fill a much needed role in the development of a demand-oriented agricultural export policy.

Building such a policy logically begins with some common understanding of the strength of United States agriculture and how these strengths can be harnessed to serve the well-being of all the people whose lives are affected by it.

There are four key areas in which agriculture plays a vitally important role in the United States economy. These areas include:

Trade balance
Productivity
Income
Employment

Trade Balance

Agriculture has been, and is, instrumental in reducing our balance of payments deficit. Since 1970, agricultural exports have increased in value from $6.9 billion to $43 billion in 1981. At the same time, the agricultural trade surplus increased from $1.2 billion to $26.7 billion in 1981.

Productivity

Export of agricultural products has been a leading factor in encouraging increased agricultural productivity. In 1980, the Trade Policy Staff Committee estimated that agricultural labor productivity was led by annual average increases of 7.3 percent in cotton, 7 percent in poultry and dairy, 6.8 percent in food and feed grains, and 5.3 percent in the meat and livestock sector. In

contrast, the average annual growth rate of labor productivity in the United States manufacturing sector was only 2.86 percent during the same period. By attaining this level of efficiency, agriculture has helped decrease the share of disposable income spent for food by the United States consumer to 12 percent. This compares with a 20 percent figure for Canada, 29 percent in Switzerland, 35 percent in Italy, and 50 percent in Portugal.

Income

Exports of United States agricultural products also generate increased output and income in other sectors of the United States economy. For every dollar of farm exports sold by the United States, it is estimated that the sale actually adds more than $2 to our economy. If we use this same multiplier for 1981, we would conservatively estimate that the $[illegible].8 billion in farm exports resulted in approximately $90 billion in total United States business activity.

Employment

Another benefit generated by farm export activity is in the employment sector. A recent USDA study on the impact of agricultural exports estimated that more than one million full-time jobs were related to agricultural exports. Of the one million jobs, nearly 500,000 workers--15 percent of the farm labor force--were employed in the production of agricultural commodities for export. In the non-farm sector, more than 630,000 jobs were directly or indirectly related to assembling, processing, and distributing agricultural commodities and products for export.

Numerous ideas have been presented here in Washington to assist our farmers, and we feel that a comprehensive and demand-oriented agriculture export policy is imperative at this time for several reasons.

1. A trade promotion program is a cost-effective farm program. $100 million spent on export expansion could save $1 billion in federal outlays for deficiency payments.

2. Competing export nations are currently promoting ag exports with aggressive government programs. Canada and Australia offer export credits, Canada is building new port terminals, Canada and Argentina are aggressively signing new Long-Term Trade Agreements, and the European Economic Community is spending record amounts on export subsidies.

3. There are legitimate economic reasons for a governmental role in promoting agricultural exports. There are many instances when free markets do not offer sufficient incentives to individual firms to promote exports. For example, commodity promotion and education programs benefit all producers and exporting firms and, therefore, limited incentives exist for individual firms to do their own promotions.

4. United States agriculture is affected by many factors outside the agricultural sector. A comprehensive agricultural export policy must consider such factors as United States-Soviet relations, barriers to trade, and world economic growth.

For the reasons just mentioned, we need a comprehensive foreign market development program. We can no longer afford to wait for buyers to come to us. Our competitors are constantly seeking new markets to expand their sales in areas traditionally served by the United States. For example, Argentina's share of Russian grain imports increased from 6.5 percent in 1979 to 19.5 percent in 1980 and to 35.6 percent in 1981. Canada's share of the U.S.S.R. grain market rose from 13.4 percent in 1979 to 13.8 percent in 1981.

We must recognize the competitive atmosphere in which we now compete and develop programs that will satisfy buyers' needs. We feel the United States government has a very significant role in pursuing the comprehensive export development program through the following actions.

Finance Programs

Finance programs, such as the PL 480 Program, direct credit programs, and credit guarantees, have been and can continue to be successful market development tools. The United States can expand markets by offering financing to countries based upon the importing country's level of income. This classic market differentiation scheme will promote farm exports as importing countries move along the Engle's Curve: i.e., increased income increases food consumption. Food aid (PL 480) has had great success in bringing poor nations into the United States market, and in turn, these nations have become good commercial customers as their income levels increased.

We again would encourage Congress to appropriate funds for the export development revolving fund. Likewise, we would hope that Congress would give serious consideration to some type of interest buy-down program.

Supply Guarantees

Long-term agreements have become a common marketing tool for market development for major exporting countries. The recent use of embargoes has cast doubt upon the reliability of the United States as a grain exporter. The discussion today about contract sanctity is a first step toward alleviating this doubt.

Food is basic to consumers and a political necessity to governments, especially in those countries where the government controls all grain marketing, such as the U.S.S.R., Poland, and Egypt. As a result, reliable supply is of great importance to buyers. Increasingly, importers are viewing world markets as unreliable and are moving toward greater self-sufficiency in food production.

Contract sanctity and Long-Term Agreements are favored by importers because they allow governments in importing countries to pursue agricultural and nutritional objectives, and they guarantee consumers a source of food. The longer the guarantee of supply, the more certainty with which governments and consumers can act. We all must remember that United States grain is feeding humans and livestock which requires a steady flow of food. The consumption of food cannot be stopped and started like a production line.

Beyond consumers and governments, another important importer group affected by contract sanctity are the marketing agencies and firms responsible for buying, transporting, and handling export grain. Grain marketing is a time-sensitive activity where costly investments such as port terminals and ocean-going ships must be used to their fullest. The interruption of grain flowing through the marketing chain prevents marketing agencies and firms from maintaining their shipping schedules, port schedules, and delivery schedules. These marketing agencies and firms also serve processors who have production schedules reliant upon a continuous supply of grain. Contract sanctity will insure marketing agencies and firms in importing countries that contracts with United States firms will not endanger their marketing schedules, the fullest use of their expensive facilities, nor their own reliability as a seller to processors.

A final, less tangible factor supporting contract sanctity is a history of trustworthiness in the grain trade. A grain buyer only buys grain once from an

untrustworthy seller. Trust is an essential element in trading huge volumes of grain between individuals of different nationalities who may never see each other. Violations of this trust brand the supplier as untrustworthy in the world grain trade and greatly limit the supplier's future sales.

Education Programs

Many programs have been undertaken by the USDA and market development groups like U. S. Wheat Associates to educate processors and consumers in foreign nations on the uses of United States agricultural commodities. These educational programs are best performed by governmental and quasi-governmental agencies because benefits are indivisible and non-exclusive.

Grain Stock Management

The Commodity Credit Corporation and the Farmer-Owned Reserve Program help stabilize prices and increase the reliability of supply by carrying excess grain out of surplus years and providing it in years of shortages. The amount of grain stored and level of price stability achieved are greater under government programs than under free market conditions because markets seldom provide sufficient incentive for long-term storage.

The American marketing system is extremely efficient at providing marketing services to foreign buyers. Our system of transportation, pricing, risk-bearing, and elevation is the most efficient in the world. Two important roles of government in grain exporting are information and guaranteeing the credibility of United States grades and standards. Information helps the markets operate more efficiently, yet information has a public good element

which limits the return to the provider of information. Finally, the quality of United States grain exported to foreign buyers must be unsurpassed.

Next, I should mention how important international, economic, and political forces have become to U.S. agriculture. The interdependent nature of our society and the world economy makes the American farmer vulnerable to factors far beyond his control. We are all well aware that many non-agricultural factors have an influence on the determination of any agricultural export program. Exchange rates reflect U.S. monetary policy, and the level and stability of dollar exchange rates affect the competitiveness of United States agricultural goods.

World economic growth affects the demand for U.S. farm products. The United States must promote foreign development through the World Bank, regional banks, AID, and a trade policy which allows low income country goods to flow freely into the United States.

A world torn by war, insecurity, and indecision in foreign policy does not promote trade. Relations between the United States and the Soviet Union improved during the early 1970s, and U.S. farmers and Soviet planners began to depend upon the agricultural trade between the two countries. The change in this relationship and trade has created uncertainty for U.S. agricultural exporters and farmers.

Barriers to trade in the United States hinder other countries' abilities to buy United States agricultural exports and give protectionist forces abroad an argument for new import barriers. An effort to remove these barriers in the United States and abroad will increase United States agricultural exports.

A comprehensive agricultural export policy must consider these factors, and policymakers outside the agricultural arena should consider the impact of their decisions upon the agricultural sector.

United States agriculture has a clear comparative advantage in the world economy, and agriculture contributes greatly to the United States economy. Our government must avoid compromising the efficiency of American farmers through actions in non-agricultural areas. Contract sanctity will assist the United States in achieving its comparative advantage in agriculture and lessen the impact of non-agricultural factors on agricultural exports.

I appreciate the opportunity you have provided me to share with you the concerns of the producers who own FAR-MAR-CO and Farmland Industries. Without a long-term, demand-oriented export policy, we will continue to see an erosion in the United States' share of agriculture exports.

Contract sanctity can provide the first positive sign of our national resolve to develop such a policy.

Our farmers must be able to compete in the marketplace with the same tools used by our competitors. Only the United States government can provide the catalyst needed in this area. And only through a thorough understanding of this issue can we hope to obtain this goal. We feel it is imperative that such a broad-based policy be considered at this time.

Senator LUGAR. Thank you very much, sir, and we appreciate your bringing with you Mr. Fulton and Mr. Waters this morning.

The Chair would like to call now upon Mr. Bernard Steinweg, the vice president of Continental Grain, New York.

Mr. Steinweg?

STATEMENT OF BERNARD STEINWEG, SENIOR VICE PRESIDENT, CONTINENTAL GRAIN CO., NEW YORK, N.Y.

Mr. STEINWEG. Thank you, Mr. Chairman. May I just say, as you've acknowledged my affiliation with the Continental Grain Co., I am here today representing the National Grain & Feed Association. I am chairman of the International Trade Committee of that association.

The sanctity of valid existing contracts if the foundation of agricultural trade, be it domestic or export. Buyers and sellers have, over many years, developed contract terms that spell out conditions for the delivery of grain and how payment is to be made. Such terms vary upon the level of confidence or risk assumption between the contracting parties. Good or bad performance over a period of time may lead to the adjustment of these terms.

As the risk assumption increases, we know that contract terms get tighter, volume may be restricted, and eventually, business may stop altogether. We believe that there is an analogy between these everyday commercial practices and the subject of these hearings.

The United States-imposed grain embargo against the Soviet Union in January of 1980 was the third time in less than 7 years than an administration suspended execution of valid contracts. It was also the third consecutive administration to have done so. Once the precedent had been established, the threshold for repeating such action was lowered.

EMBARGO WHEN NATIONAL SECURITY THREATENED

The President, in his March statement, has been rather clear in his evaluation of the 1980 embargo. He said it was bad for our farmers, bad for our economy, but not that bad for those we were supposedly going to punish. But in talking about the future, the President was less clear. He stated: There may come a day when our national security is threatened and the issue of an embargo is raised again. In that case:

> I would not hesitate to declare such an embargo, if it was part of a complete boycott and if we could have the cooperation of other nations.

When viewed in the perspective of the 1980 embargo and current United States-Soviet relations, these comments leave doubts as to the U.S. intentions. National security is one of the stated reasons for the 1980 embargo. But the decision to suspend about 15 million tons of valid contracts while allowing the execution of up to 8 million tons of unshipped contracts covered by the basic agreement with the Soviet Union raised questions about the threat to national security caused by the Soviet incursion into Afghanistan.

That decision also said that contracts covered by bilateral agreement were more valid than others, a fact that has not been lost on buyers around the world or on our own agricultural community.

Certainly much of the support to extend the grains agreement with the Soviet Union is related to the matter of contract sanctity. Yet, it cannot be in the interest of this country to create the impression that there are two types of valid contracts and clearly, the sponsors of this legislation recognize this fact.

I believe we would all agree that commercial trade must benefit both contracting parties. The attitude that we are doing a country a favor when we sell grain to them for cash has been proven to be inappropriate. But it is this attitude which has led to the notion that we can cut off trade or stop doing the favor when we feel provoked.

I would like to refer briefly to the Export Administration Act of 1979, where one of the findings of Congress reads:

> Minimization of restrictions on exports of agricultural commodities and products is of critical importance to the maintenance of a sound agricultural sector.

The first paragraph of the act's declaration of policy also states:

> It is the policy of the United States to minimize uncertainties in export control policy and to encourage trade with all countries with which the U.S. has diplomatic or trading relations, except those countries with which such trade has been determined by the President to be against the national interest.

President Reagan's actions to date are consistent with those findings and policy. What is needed now is legislation that clearly states that the United States will honor its existing agricultural contracts except during periods of a declared national emergency.

I might also like to add that it appears that should the grains agreement with the Soviet Union be extended, many people think that the subject of contract sanctity can be put to rest. This is not the case. In fact, the opposite is true.

The grains agreement would not have taken on the importance it has if our country had adopted an announced policy of execution of valid contracts.

So while we would welcome a decision to extend the agreement, believing that it would allow for increased trade in the coming year, we feel strongly that the work of this committee should move forward.

Thank you.

[The complete statement follows:]

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NATIONAL
GRAIN & FEED
ASSOCIATION

STATEMENT OF THE NATIONAL GRAIN AND FEED ASSOCIATION

ON S. 2357 AND S. 2410

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL FINANCE AND MONETARY POLICY
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE

BY

BERNARD STEINWEG
JULY 29, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Bernard Steinweg. I am Senior Vice President of Continental Grain Co. I am appearing today on behalf of the National Grain and Feed Association, for which I serve as Chairman of the International Trade Committee.

The National Grain and Feed Association is a voluntary trade association of grain and feed firms. The operations of our 1,250 members include country elevators, terminal elevators, processors and exporters. There are 46 state and regional grain and feed associations affiliated with the National Grain and Feed Association that represent upwards of 10,000 grain and feed companies nationwide.

We view these hearings as a logical and positive step in the ongoing process of regaining for this country its reputation as a reliable supplier of farm products. We hope this process will lead eventually to implementing the declared policy of maximizing our agricultural export potential. These hearings,

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which are an outgrowth of the public debate concerning the impact of the 1980 embargo on grain sales to the Soviet Union, can take us far along the course of reaching that goal.

The sanctity of valid existing contracts is the foundation of agricultural trade -- be it domestic or export.

Whenever the reputation of an individual, a company, or a country is questioned or tarnished, the effect is adverse and immediate.

Buyers and sellers have, over many years, developed contract terms that spell out conditions for the delivery of grain and how payment is to be made. Such terms vary depending upon the level of confidence or risk assumption between the contracting parties. Good or bad performance over time may lead to an adjustment of these terms. As the risk assumption increases, we know that contract terms get tighter, volume may be restricted, and, eventually, business may stop altogether.

We believe there is an analogy between these everyday commercial practices and the subject of these hearings.

The U.S.-imposed grain embargo against the Soviet Union in January 1980 was the third time in less than seven years that an administration suspended execution of valid contracts. It was also the third consecutive administration to have done so. Once the precedent had been established, the threshold for repeating such action was lowered.

The reasons cited for the sales suspensions -- a short supply in 1973 and again in 1974 and then foreign policy and national security in 1980 -- were sufficiently broad in nature and vague in interpretation. The suspensions caused great anxiety among buyers in the world who had come to depend on the U.S. And, of course, it caused apprehension among farm producers and commercial operators in this country who felt the immediate impact of the suspensions....and who continue to experience the effects of this country's tarnished reputation as a reliable supplier.

Countries around the world, regardless of their relations with the U.S., reacted to our embargoes in predictable fashion. Some are trying to increase their own production and/or are widening their sources of supply. Their reaction is much the same as the United States following the Arab oil embargo of 1973. Some, in addition to the Soviet Union, have sought supply agreements with delivery assurances from us and other exporting countries.

Since the embargo of January 1980, much public debate has centered around the use of United States grain exports as an effective foreign policy weapon, the differences between grain and oil as a political weapon and the impact on our country when we employ such action. We shall not repeat or try to summarize the major points of this debate. But, rather, we would point out some conclusions drawn by this administration and Congress.

Ronald Reagan stated during the 1980 presidential campaign that he believed the embargo against the Soviet Union was a mistake. As President he lifted the embargo in April 1981. A few months later he authorized the extension for one year of the expiring grain agreement with the U.S.S.R. In imposing economic sanctions against the Soviet Union in December 1981, the President did not embargo grain sales. And in March of this year, he stated - as part of his long term policy on grain exports - that no restrictions would be imposed on the exports of farm products because of rising domestic prices. Further, he said that farm exports would not be used as an instrument of foreign policy except in extreme situations and as part of a broader embargo. The President went on record saying: "The embargo of 1980 was almost totally ineffective, yet caused great economic hardship to U.S. agriculture. We will not repeat such actions."

Congress, for its part, included in the Omnibus Farm Bill of 1981, provisions to support farm income in the event agricultural exports are restricted in cases similar to those of 1980.

All of these actions and statements are positive responses -- intended to reassure foreign buyers and U.S. agriculture about our future intentions as opposed to our past actions. They are welcomed initiatives, but they still fall short of solving the problem we face today. That problem is clarifying the status of valid contracts in the event an embargo is imposed for foreign policy reasons.

The President was very clear in his evaluation of the 1980 embargo. He said: "It was bad for our farmers, bad for our economy, but not that bad for those we were supposedly going to punish".

But in talking about the future, the President has been less clear. He stated: "There may come a day when our national security is threatened and the issue of an embargo is raised again. In that case I would not hesitate to declare such an embargo if it was part of a complete boycott and if we could have the cooperation of other nations".

When viewed in perspective of the 1980 embargo and current U.S.-Soviet relations, those comments leave doubts as to U.S. intentions. National security was one of the stated reasons for the 1980 embargo. But the decision to suspend about 15 million tons of valid contracts while allowing the execution of up to 8 million tons of unshipped contracts covered by the "basic agreement" with the U.S.S.R. raised questions about the threat to national security caused by the Soviet incursion into Afghanistan.

That decision also said that contracts covered by bilateral agreement were more valid than others -- a fact that has not been lost on buyers around the world or on our own agricultural community. Certainly, much of the support to extend the grains agreement with the Soviet Union is related to the matter of contract sanctity. Yet, it cannot be in the interest of this country to create the impression that there are "two" types of valid contracts.

The sponsors of the legislation we are here to discuss recognize this fact.

In introducing S-2357, Senator Lugar stated: "We must make an irrevocable commitment to our trading partners that the U.S. will honor all export contracts that are entered into on good faith".

By implication, S-2357 and S-2410 state that having once lowered the threshold under which export restrictions could be imposed, we are now compelled -- in commercial terms -- to tighten our contracts -- to prove we are a reliable supplier.

The proposed legislation addresses the major and fundamental point -- the status of valid contracts in the event of another embargo. The Administration has been silent on this point. The United States' past record and the increasing use of economic sanctions warrant a clear commitment on this basic issue.

This commitment would be directed not only towards the Soviet Union, but to all buyers in the world, many of whom have not maximized their purchases from the U.S. because of this country's past performance. It would also be a commitment to those who market our exports so that they may do so with the full understanding that they can execute their contracts.

We believe we would all agree that commercial trade must benefit both contracting parties. The attitude that we are doing a country a favor when we sell grain to them for cash has been proven to be inappropriate. But it is this attitude which has lead to the notion that we can cut off trade -- or stop doing the favor -- when we feel provoked.

Finally, we should like to refer to the Export Administration Act of 1979. One of the findings by Congress reads: "Minimization of restrictions on exports of agricultural commodities and products is of critical importance to the maintenance of a sound agricultural sector". The first paragraph of the acts' Declaration of Policy also states: "It is the policy of the United States to minimize uncertainties in export control policy and to encourage trade with all countries with which the U.S. has diplomatic or trading relations except those countries with which such trade has been determined by the President to be against the National interest".

President Reagan's actions to date are consistent with those findings and policy. What is needed now is legislation which clearly states that the U.S. will honor its existing agricultural export contracts except during periods of a declared national emergency.

If further deliberation of such legislation determined that an additional safeguard for U.S. interests was necessary, consideration could be given to have such a commitment apply only to those valid contracts which provide for delivery within a prescribed time period from the date export restrictions are imposed -- six to nine months for example.

Senator LUGAR. Thank you very much, Mr. Steinweg. I will ask questions and each of you who has a response, please signify and I'll recognize you.

SETTING TIME LIMIT OF EXPORT CONTRACTS

Surely one point of discussion in this panel, as well as the previous panel, was over the length of time that the export contracts should be protected. I think that Mr. Johnson, in his testimony, has gone into some detail as to the specifics of the numbers of contracts outstanding at the time of the last embargo. Would others of you wish to offer information as to a normal contract situation, as far as time is concerned, if there is such a practice in your businesses, and why 6 or 9 or 12 months is preferable? And as you give that response, try to double back, if you can, and, as sophisticated observers of this scene over a long period of time, and recognizing the position taken by the Federal Government and its various ministries, what is your best counsel as to the time limit of the sanctity that we finally ought to arrive at?

Mr. St. Clair.

Mr. ST. CLAIR. Well, Senator, in my previous testimony, I indicated that I would favor 1 year. That is a fairly common time period for contracts in the agricultural area. Not too often do you get into contracts beyond that. But I think that we're missing, possibly, a very important fact. At least in the value-added commodities—edible soy protein, soybean meal, and soybean oil—Russia does not have to buy anything from us. And if our objective in this is to win back a customer and sell him the product of our American farms, then I'm not so sure that we're going to gain that customer by offering half a loaf, when other countries will offer him all that he wants and offer the whole loaf.

I guess that's the point. I think that we fail to put ourselves in the buyer's position and look at what we're doing from his point of view.

Senator LUGAR. Mr. Chartier.

Mr. CHARTIER. Thank you. We are of the opinion that they should maybe be open ended or extend up to the year, from the standpoint that it allows better planning on the part of the producer. It allows better planning on the part of the country that's buying. And these are items that I think are important.

In the past few years, most of the contracts in the grain trade have been of rather short duration. But I think the reason for that comes back to the fact that we have been considered unreliable suppliers and then on the part of the grain trade, in some cases, we have been afraid to negotiate longer term contracts from the standpoint of we didn't know whether we would be allowed to deliver those contracts.

If you go back in time before the embargos, there are some examples of grain firms who made several 1- and 2-year contracts. And so we feel that with credibility coming back, perhaps we can get back in that posture and win back some of these customers, and we would like to see the duration of at least a year.

Senator LUGAR. Mr. Steinweg, do you have a further comment on that?

Mr. STEINWEG. I don't have much to add. Obviously, the normal trading pattern for grains for a period of 9 months to a year would not be unusual, which recognizes the fact that much of the volume is done for periods of shorter time. I do believe that if this legislation begins to move forward, I think there is room for discussion between the trading patterns and the safeguards that we could understand the administration would be looking for in putting some kind of time limit on this.

I don't feel that this would be the major stumbling block to moving ahead on this legislation.

Senator LUGAR. In other words, if there's the possibility of legislation, you would not want the time factor to be the barrier.

Mr. STEINWEG. Exactly. Obviously, if it's too short, we really don't have legislation. But if it's a period in the 9-month area, I think that that would be rather appropriate for the grain side.

Senator LUGAR. From the information that you have in the business, do other grain-exporting nations provide contract guarantees such as we're discussing here today—that is, sanctity of contract for periods of time? If so, in what form do they take and for how long are the assurances applicable?

LONG-TERM TRADE AGREEMENTS

Mr. CHARTIER. I'm not familiar with any of the other countries providing contract sanctity. They all, of course, or a good many of them, enter into long-term agreements. I think that there are some 41 nations today that have long-term trade agreements, but they have not defaulted on contracts, so they're not considered untrustworthy and they have not had to enter into contracting.

Senator LUGAR. Mr. Johnson.

Mr. JOHNSON. I would endorse what Mr. Chartier said and add just one other thing. If you look at countries with state trading export entities, like the Canadian Wheat Board or the Australian Wheat Board, it is not uncommon for those agencies to make sales for 1 year forward and, in effect, in that process, provide assurance of delivery of those sales for that time period.

Senator LUGAR. Yes, Mr. Chartier.

Mr. CHARTIER. Most of the long-term agreement sales, too, are not at a price for the whole period. It is a quantity arrangement and prices are negotiated as you get to certain points. And I think this is particularly important for our American farmers to have the assurance of the contract sanctity as a start, and also the long-term agreement, if it's possible, to protect them on their planning and to be somewhat assured of what kind of productive capacity they're going to have to have and that they will be able to utilize their technology and capacity and their facilities that they've invested heavily in.

Senator LUGAR. Is the burden of your testimony that no other nations have embargoed grain and thus, none suffer from the same lack of assurance that seems to attend our efforts?

Is that true, really, of all the other trading competitors that we have?

Mr. CHARTIER. As far as our research is concerned, we feel it is. There has been some times when political situations arose when long-term arrangements were renegotiated or changed in size.

Senator LUGAR. But not an absolute cutoff for embargo.

Mr. CHARTIER. No. That's unique, at least in terms of our policies. So these problems of lack of assurance seem to attend only to ourselves.

Mr. STEINWEG. It's well documented that the other countries we're speaking of did not follow our lead in 1980. And I might also point to the recent sanctions that the EEC imposed against Argentina at the time of the Falklands crisis. Specifically, they did not include existing contracts.

Senator LUGAR. As a matter of curiosity, were all contracts for future delivery bought out by the Federal Government after the 1980 suspension of grain sales to the Soviets and, if not, what was left of the situation?

Mr. Johnson, do you have a thought?

Mr. JOHNSON. Let me try my hand at that and others here may want to supplement the answer.

On January 4, 1980, we had, as an industry, shipped 5½ million tons of grain to the Soviet Union. And the embargo decision permitted shipment of 8 million tons. So an additional 2½ million tons of contracts outstanding on January 4 were shipped. That left roughly 13½ million tons of export contract commitments that were cut across on which shipments were prevented.

CCC ASSUMES CONTRACTS

The Commodity Credit Corporation eventually signed contract assumption contracts with 12 of the 14 exporters who had cut across contracts. Those 12 represented virtually all of the 13½ million tons, but not quite all.

As a supplement to that, obviously, the cash and futures purchases exporters had made, as well as the freight commitments, were not assumed.

Senator LUGAR. Well, earlier, we heard that about 4 million metric tons was purchased by CCC. I assume that these were shipments that were boarded by the embargo decision. But I suppose that the burden of the question is: Was this all of it? Was this 4 million metric tons of grain that was caught in the process and retired by CCC or were there other losses somewhere else in the situation?

Mr. JOHNSON. Could I just follow up on that? What the Commodity Credit Corporation did with the assumed contracts was retender them into the marketplace later at market prices. And this 4 million tons that was alluded to earlier were simply held back and the Government took possession of that grain rather than retendering the contracts.

If the thrust of your question goes to the total cost to the Government from all of the postembargo activities, there was a report by the Office of the Inspector General that was issued, I think about 5 or 6 months ago, and as I recall, they estimated that the total cost of all of these activities and the price propping actions and other things the Government did came close to $2 billion.

Senator LUGAR. $2 billion. Yes, Mr. Steinweg?

Mr. STEINWEG. Just to clarify, because we sometimes are talking about export contracts and then some of the domestic actions. To the best of my recollection, and I don't have any facts or figures, the Commodity Credit did take over the contracts Robbin Johnson has stated of the exporters, those contracts were eventually rolled over and sold by CCC and, to my knowledge, have long since been disposed of at that time and I think the $450 million figure that Robbin referred to earlier was on the export side.

In addition, there has been reference made to purchases of 4 million tons of wheat for emergency programs. That wheat is still being carried. Also at that time, there was purchases in an ongoing period, a quantity I'm not sure of, of corn, also which is still owned by CCC. That's a quantity that could be in the 150 million-bushel area. And, as you well remember, Mr. Chairman, there were other actions taken to alleviate the situation caused by the embargo in adjusting loan rates, in adjusting conditions under which grain could enter the reserve, all of those at a cost that, in total, comes to the $2 billion or slightly higher.

But I would hasten to add that I doubt that a figure like that could be verified only in terms of, what it cost the Federal Government, but in terms of the entire industry, both then and forward, I'm sure the costs are much higher.

Senator LUGAR. Mr. St. Clair.

Mr. ST. CLAIR. Senator, I believe those companies that were involved in value-added products, which includes edible soy protein, soybean meal, and poultry, all assumed all of the cost of the embargo in terms of what it did to them in cancelling the contracts. I think in those value-added contracts, it didn't cost the Government 1 red cent.

Senator LUGAR. It was just cost to Staley and others.

Mr. ST. CLAIR. That's right. And repeated appeals to Washington got us no help at all on those contracts.

Senator LUGAR. Now is it true that when a great deal of uncertainty exists during the Soviet markets, it was during the event surrounding the Polish situation in December of last year and subsequently, that U.S. grain exporters are hesitant about negotiating and signing any export contracts with the Soviets because they fear that the delivery of these contracts might be prohibited and they would be left holding grain and/or futures contracts with no market for the product?

Would any of you discuss your own feeling, sort of Polish, post-Polish, and what this has had to do with your trade? Yes, sir?

Mr. CHARTIER. Well, we, of course, are very new in the export business and we were in the process prior to the Polish situation of visiting with export club with Russia, and we did travel there to visit with them. When this situation occurred, we were very hesitant to enter into an agreement. Of course, when it occurred, they certainly didn't want to enter into one with us, either. But we were concerned about it for those very reasons. If we made a sale, would we be allowed to deliver and the financial risk and the cost involved if we couldn't?

It was a very big concern.

Senator LUGAR. Mr. Johnson.

Mr. JOHNSON. Let me follow that up. I think it is true to say that between December 13, when martial law was declared in Poland, and the end of February, there were no grain sales from the United States to the Soviet Union. And that was both because of uncertainties on the part of sellers, as well as reservations on the part of the foreign buyer. And there's an asymmetry here. The Soviet Union can turn to other suppliers in order to meet its needs, but the United States suffers from the uncertainty in terms of lost sales opportunities.

Mr. CHARTIER. I'd just like to add one other comment. In that period of time, we only represent and market for our members. We are not involved in origination from other countries. Therefore, we were particularly concerned because if we had a contract, we had no other place to go to buy the grain to fill the contract. And again, as representing our farmers, they could not afford their loss and loss of patronage, and what it would have cost them could we not handle the sale for them and deliver.

Senator LUGAR. Obviously, the reason for this line of questioning is that there have been allegations in previous hearings in the Foreign Relations Committee and the Agriculture Committee that a form of semiembargo occurred post the Polish situation. Although it was obviously not the policy of our Government to invoke an embargo, the net effects of the uncertainty upon those who were involved in the trade, as you are, and of course, on the part of farmers who are producing, were almost as consequential.

Would each of you give additional testimony—Mr. St. Clair has mentioned, specifically in the value-added aspects of the food industry as represented by his company, that a plant in Memphis or a plant that might be in Memphis, is on hold in this respect—but can any of you offer testimony as to what the effects are on the nonagricultural community of the embargo business?

IMPACT OF EMBARGO ON NONAGRICULTURAL BUSINESSES

In short, how many jobs, what sort of economic circles move out from the grain trades, either beyond farmers who produce or those of you who trade with other countries, or even in the case of the Staley Co. today, who actually use these products? That's something else and also deal with it.

The purpose of the question being: Is there any testimony that you could offer as to the general impact upon our total economy or the economies that you serve that make this more than simply a parochial problem of interest to farmers and grain shippers?

Yes, sir?

Mr. STEINWEG. I think it's rather obvious that if we try to assume, all other conditions being the same, that we were able, if the United States were able to supply an additional 15 or 20 million tons to the Soviet Union that we are not supplying as a result of the uncertainty, that one place I would respond is in the present Government programs, in the cost to the taxpayers that the present programs are costing. So even with lower food prices, we have an offset in higher taxpayer costs and I would anticipate that those would go still higher, as evidenced by the recent introduction of

legislation in the House of paid diversion and certainly, there is a risk as we take land out of production.

I think we have also, as a result of attempting to offset the effects of loss of trade and by increasing our domestic support prices, have been holding a price umbrella over other countries who are benefiting. So it's a double-edged sword. We are supporting our prices, trying to reduce production as a result of the lack of trade, and this is helping other countries who are certainly very happy about this event, to take advantage of this.

I think certainly one area that hasn't received much attention here, but the transportation area, the number of barges and hopper cars and boxcars that aren't being utilized as a result of a less than full program of what this country could do on the export side, is rather dramatic, the number of barges being idle and tied up and railcars that we once thought were in shortage and have programs and incentives to build, are not being utilized.

I think in the farm machinery area, and fertilizer. Certainly, the producers are one of the big spenders and their spending is as important to our economy as their production. We know that there are areas there that are certainly falling short.

Senator LUGAR. Mr. St. Clair.

Mr. ST. CLAIR. Senator, I don't have any facts with me to present to you in this testimony, but I believe there is a USDA study out that speaks factually to the ripple effect in the economy of increased value-added exports. Those figures were even staggering to me. We'll make sure that your office receives a copy of that study.

Senator LUGAR. Thank you very much. I appreciate your referencing that. We would be pleased to have your assistance. I'll ask staff also to search for this so it might be made a part of the record of this hearing.

Mr. CHARTIER. I agree with what has been said. We have some personal experience relative to a number of the items. One, transportation in our operation. As the demand went down, and not only because of the loss of Russian business, but because we are looked upon as unreliable, and we get these comments every time we try to deal with foreign nations. But volume is down. We've not been able to utilize our export facilities to the capacity that we need to. It's been very costly. We have not been able to utilize our rail transportation.

And so that has had an effect. And frankly, you know, as the farm economy hurts the farmer, it's reflected very quickly to those of us involved in serving the farmer. And we've laid off people this year because of the squeeze. As was mentioned, the machinery business.

In our little community of Hutchinson, Kans., it's had a dramatic effect. Hesston, very close by, has had to lay off people. Cessna has laid off over 1,000 people lately because of not having the money generated from the farm economy to be able to buy these products. There's something over a million people involved in this export business. About 500,000 of the workers, or 15 percent, are the farm labor that's required to produce the commodity. And then about 630,000 of that over a million that are directly or indirectly related to assembling and processing and distributing those agricultural commodities.

I think for every $1 billion of export volume, the figure is around 37,000 nonagriculture or directly related to agriculture, those people required to handle those sales.

Senator LUGAR. The Chair would like to mention that it will place in the record: a Wall Street Journal story of July 26, 1982—"U.S. Divided on Soviet Grain Accord"; a letter from the National Grain Trade Council, received by the committee; a letter from the National Soybean Processors Association received by the committee; and a statement by the North American Export Grain Association, Inc. that was received by the committee as testimony; and include the USDA report on ripple effects.

Senator LUGAR. The purpose of this line of questioning is obvious, and that is, frequently, legislation of this sort is pegged as simply of assistance to farmers. Clearly, the ripple effects are astonishing and they come into industrial America and into communities all over our country, in addition to those States that seem to be most prominently represented today and have large production of corn, wheat and soybeans.

Gentlemen, I deeply appreciate your giving this time this morning to this subcommittee hearing. Your testimony will be important as we attempt to get progress and action on this legislation.

Thank you for coming.

The hearing is adjourned.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Copies of the two bills being considered and additional information follows:]

97TH CONGRESS
2D SESSION

S. 2357

To prohibit export restrictions that interfere with existing contracts for the exportation of such commodities.

IN THE SENATE OF THE UNITED STATES

APRIL 13, 1982

Mr. LUGAR (for himself, Mr. DURENBERGER, Mr. PRYOR, Mr. ABDNOR, Mr. FORD, and Mr. BOSCHWITZ) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To prohibit export restrictions that interfere with existing contracts for the exportation of such commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding any other provision of law, the Government of the United States shall not impose any restrictions upon the exportation of agricultural commodities which interfere with valid contracts for the exportation of such commodities entered into prior to the date such export restrictions are imposed and which provide for the delivery of such commodities for exportation within one hundred and eighty days of the date such export restrictions are imposed.

97TH CONGRESS
2D SESSION

S. 2410

To amend the Agricultural Act of 1970, to prohibit restrictions on the export of certain agricultural commodities.

IN THE SENATE OF THE UNITED STATES

APRIL 21 (legislative day, APRIL 13), 1982

Mr. DURENBERGER (for himself and Mr. BOSCHWITZ) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

---

A BILL

To amend the Agricultural Act of 1970, to prohibit restrictions on the export of certain agricultural commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 812 of the Agricultural Act of 1970 (7 U.S.C. 612c–3) is amended by adding at the end thereof the following new sentence: "Notwithstanding any other provision of law, the President may not prohibit or curtail the export of an agricultural commodity sought to be exported under an export sales contract (1) entered into before the President announces an action which would otherwise prohibit or curtail the export of the commodity, and (2) reported pursuant to this section, except that the President may prohibit or curtail the export of the commodity during a period for which the President has declared a national emergency or for which the Congress has declared war.".

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

HILTON DAVIS
VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

1615 H STREET, N.W.
WASHINGTON, D. C. 20062
202/659-6140

July 28, 1982

The Honorable H. John Heinz III, Chairman
Subcommittee on International Finance
and Monetary Policy
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

The Chamber of Commerce of the United States is pleased to have the opportunity to comment on S. 2357. The Chamber is the world's largest business federation, with 256,000 members, representing business firms, associations, and state and local chambers of commerce.

S. 2357, introduced by Senator Richard Lugar, would prohibit the federal government from imposing any restrictions on the export of agricultural commodities which would interfere with valid contracts for such exports. The prohibition would apply to contracts that existed prior to imposition of the export restriction and which provide for the export delivery of such commodities within six months of the date of the restriction.

While the Chamber is sympathetic to the supporters of this bill, we urge that its substance be embodied in a resolution rather than a bill. The reasons for our support of the concept and recommendation of a resolution are elaborated below.

The grain embargo imposed in January, 1980 created havoc in the U.S. grain industry. Several million tons of grain had already been contracted for delivery to the Soviet Union. Commitments had been made by U.S. private export companies to purchase the grain from American farmers. Market prices reflected the strength of the export contracts. It cost the U.S. Government millions of dollars to buy up these contracts to mitigate the loss of sales and depressed prices resulting from the embargo. The U.S. transportation system became virtually paralyzed during the process of reversing and redirecting shipments from export locations.

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Equally critical was the longer-term damage to the credibility of the United States as a reliable supplier of agricultural products. Every such embargo action loses markets for U.S. products. The 1973 embargo on soybean exports led to the expansion of that crop in Brazil. The 1980 embargo caused the Soviets to turn to other major grain producing countries. The U.S. is no longer a major supplier of grain to the Soviets, who will need upwards of 30 million tons this year.

American agriculture again has not only record production, but also declining exports and depressed commodity prices. It is imperative that every effort be exerted by the federal government and the private sector to promote exports and assure reliable delivery. This will result in increased farm income, reduced government spending in the agricultural segment and a more favorable balance of payments.

For these reasons, we strongly recommend that the Administration refrain from including existing export commitments in any future embargo of food and agricultural products, except in the case of a declared national emergency.

While supporting the concept of S. 2357, we cannot support this legislation that would restrict the President's options to impose economic sanctions under unforseeable circumstances. Therefore, we recommend that any Senate action, with respect to the sanctity of contracts as provided in S. 2357, be expressed as a simple resolution only.

I will appreciate your consideration of these views, and I request that this letter be made a part of the hearings record.

Cordially,

Hilton Davis

Hilton Davis

cc - Subcommittee members
Lamar Smith, Chief Economist
Charles L. Marinaccio, Minority Counsel

JOAN T. BIER
Director
Government Affairs

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

July 28, 1982

The Honorable John Heinz, Chairman
International Finance and Monetary Policy
United States Senate
Washington, D. C. 20510

Dear Senator Heinz:

Since you have long been aware of IMC's concern for the plight of American farmers relative to their obtaining and holding their fair share of the international market, I felt you should have a copy of the attached letter. This letter, written by our Chairman and Chief Executive Officer, Richard A. Lenon, is in response to an editorial appearing in the July 5 edition of Business Week. That editorial, calling on the Administration to further strengthen the U.S. foreign policy stand toward Russia by imposing a future embargo on U.S. grain sales to the Soviets, is also enclosed.

We would hope that you will find Mr. Lenon's retrospective analysis of the grave economic damages now being inflicted on the entire U.S. farming population of some assistance to you--particularly in your deliberations as Chairman of the Senate Subcommittee on International Finance and Monetary Policy and in holding hearings on July 29 on the subject of embargoes, in general.

Sincerely,

Enclosures
JTB:kh

1150 Connecticut Ave, N. W. · Washington, D. C. 20036 · (202) 659-1750/51

RICHARD A. LENON
Chairman
and Chief Executive Officer

INTERNATIONAL MINERALS & CHEMICAL CORPORATION

July 8, 1982

Mr. John L. Cobbs, Editor
Business Week
McGraw-Hill Building
1221 Avenue of the Americas
New York, New York 10020

Dear Mr. Cobbs:

Your editorial "A rough, right decision" (July 5) calls for an embargo on future grain sales to the Soviet Union. Such a step would be a major add-on to the burden already draped around the shoulders of the U.S. farmer and the domestic agricultural community generally. It is unlikely that any intended message would be heard; our allies, with their more pragmatic export policies, could be expected to smile, shrug, and go about their business, while the Soviets would turn, as before, to other readily available sources.

Much of the nearly $1 trillion investment in U.S. agriculture has been made on the premise that upwards of 40 percent of crop output would be sold into export markets. Unfortunately, this country's growth in share of international agricultural markets has come to a halt, and our use of embargos as a political tool has contributed greatly to the problem.

Looking at the most recent one, the 1980/81 Russian grain embargo, a study by Schnittker Associates estimates that this action cost our country $11.4 billion in national output, almost 310,000 jobs, and $3.1 billion in personal income -- plus several billions more in direct government costs. The ill effects still linger in product oversupply and international uncertainty as to the reliability of the U.S. as a supplier.

We will applaud and support firm U.S. economic actions for constructive purposes, but an embargo on grain to the Soviets would be counterproductive -- ineffective abroad, and severely damaging to the American farmer, struggling to survive in an already difficult economic situation.

Sincerely,

/s/ R. A. Lenon

2315 Sanders Road • Northbrook, Illinois 60062 • (312) 564-8600

BUSINESS WEEK EDITORIAL
July 5, 1982

Editorials

A rough, right decision

The U. S. will pay a substantial price for the Reagan Administration's decision to ban European licensees of U. S. companies from selling oil and natural gas equipment to the Soviet Union (page 21). But it is a price that has to be paid if our repeated protests against the continued repression of the Polish people are to have any substance. The decision, although it will disappoint some U. S. business interests and anger some allies, deserves support.

The immediate target of the new ban is the Soviet plan for a 3,700-mi. pipeline to transport natural gas from Siberia to Western Europe and thus earn badly needed foreign exchange. General Electric Co. has licensed four European companies to build compressors with an advanced type of rotor for the pipeline. The Administration's refusal to allow sale of this and other equipment to the Soviets will delay the pipeline several years or, some experts think, kill it altogether.

The ban clearly adds to existing strains between the U. S. and its allies and may cause more difficulties in resolving differences on such matters as export credits and subsidized European-made steel being sold in the U. S. But if the U. S. had permitted the equipment sales to go forward, why would the Soviets have taken this country's future protests over Poland, Afghanistan, or other Communist outrages any more seriously than they have taken past ones? Six months have gone by since the crackdown in Poland, and as the President says, "little has changed." In this context the ban adds a welcome measure of credibility to U. S. policies. The Administration now ought to strengthen its stand by imposing an embargo on future grain sales to the Soviet Union. This action would demonstrate to our allies that they are not being asked to carry a disproportionate burden and to the Soviets that their aggressive behavior will bring penalties, not just words.

NATIONAL GRAIN TRADE COUNCIL
EXECUTIVE OFFICES
SUITE 476
1030 - 15TH STREET, N.W.
WASHINGTON, D. C. 20005

(202) 842-0400

July 28, 1982

Honorable John Heinz
Chairman, Subcommittee on International
Finance and Monetary Policy
Senate Committee on Banking, Housing,
and Urban Affairs
Dirksen Senate Office Building
Washington, D. C. 20210

RE: S. 2357, a Bill to prohibit export restrictions that interfere with existing contracts for the exportation of such commodities;
and
S. 2410, a Bill to amend the Agricultural Act of 1970, to prohibit restrictions on the export of certain agricultural commodities.

Dear Sir:

The National Grain Trade Council, a voluntary association of organized grain exchanges, boards of trade, and national grain marketing associations, recommends that the principles of these bills be approved by appropriate Senate committees and the Senate.

The over-riding principle of both bills is that valid commercial contracts to export agricultural commodities should be exempt from any government-imposed restriction on these exports, under certain conditions.

We endorse the language is S. 2357 that this exemption apply to contracts "entered into prior to the date export restrictions are imposed...". S. 2410 contains similar language. We would prefer that the exemption be extended to provide for delivery of those commodities for exportation within six to nine months of the date such export restrictions are imposed.

We believe that the exemption should not apply during a period for which the President has declared a national emergency, excluding an emergency of an economic nature, or during a period during which a declared state of war exists.

Senate committee approval and Senate approval of the over-riding principle of both bills affirming the continuing validity of export contracts and of language directed to when and how exemptions from export restrictions should and might not apply will send messages to the United States' farmers that our export markets will not be denied them for economic reasons, as they were in 1973 for soybeans, and messages to foreign purchasers that they, as buyers, can rely on the continuing reliability of commercial export contracts covering agricultural commodities of U.S. origin, unless normal commercial relations are disrupted for non-economic reasons, including a state of war.

Adoption of the principles of the pending bills will rebuild the confidence of all major importers in contracts covering United States-produced grains and oilseeds. Since 1980, many of them have turned to sources of supplies other than the United States. That trend must be reversed, for the U.S.S.R. was, and is, not alone in believing (and acting on the premise) that commercial export contracts covering agricultural commodities of U.S. origin can be easily invalidated.

On the state of the present record, the economic uncertainties facing every sector of the grain marketing system, from United States' farmers to the final market here or abroad, are substantial. Crops must be financed as they are planted and harvested and sold and resold for consumption here and abroad. Their dispositions occur over varying time periods. This involves continuous financing and long-term transportation obligations, making the threat of export embargoes of understandable concern to each part and parcel of the farm to market complex.

We request that the attached staff memorandum, "The Importance of Agricultural Exports and of the United States' Posture as a Reliable Supplier," and this letter be made a part of the record of your Subcommittee hearing.

Respectfully submitted,

William F. Brooks

William F. Brooks
President & General Counsel

Enclosure

WFB/ks

NATIONAL GRAIN TRADE COUNCIL
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July 28, 1982

Importance of Agricultural Exports
and of
The United States' Posture as a Reliable Supplier

In a world of increasing interdependence, agricultural exports are important not only to the grain industry, but to the United States' agricultural and national economies, as well.

As the U.S. economy has become more international in the past decade, the value of exports increased fivefold so that now 19 percent of U.S. goods are sold abroad. Today's agricultural exports are valued at approximately $47 billion. These exports represent nearly $20 billion in trade surplus, which lessens the nation's overall balance of trade deficit.

Agricultural exports supply one-quarter of all farm income, utilize two-fifths of all harvested cropland, and provide over one million jobs. These factors, in turn, create increased business activity in many other sectors of the economy, still furthering the impact of export market growth.

A large part of this export volume is from grains, high protein feedstuffs, and livestock products. Grain exports are very significant to the agricultural economy when one considers that wheat, corn, and soybeans use 60 percent of the U.S. cropland and represent about 50 percent of the income for the crop sector.

Because of the crucial importance of exports to the agricultural economy, the export sales volume stands as a direct measure of financial income for all members of the grain-related industries. Quite simply, if sales are high, producers, handlers, and exporters all stand to increase their assets and, in turn, spur the general economy. The extent of this effect becomes especially clear when one considers the actual magnitude of grain sales. For example, during the week of June 25-July 1, 1982, private U.S. grain exporters reported contracts for wheat, sorghum, corn, barley, and rice totalling 864,500 metric tons. In addition, foreign buyers contracted to purchase 319,800 metric tons of soybeans and soybean products. Quite obviously, these figures translate into substantial dollar values.

Even though these increased commodity exports signal expanding markets and income for producing and trading sectors, they also introduce new elements of risk to those producers who benefit from world trade and who are subject to the changing tides of international political, economic, and weather conditions. Because very little can actually be done to affect, on an international scale, these varying conditions, we in the United States could well take steps to moderate the impact they have on American interests.

The United States is a major agricultural producer in the world and the major exporter of agricultural commodities. If the United States is not viewed as a reliable supplier, considering the importance of agricultural exports to our economy, our efforts to expand or even maintain our foreign markets may be crippled. The United States' reputation as a reliable supplier has been called into question.

Many nations rely on the United States to supply a major portion of their food needs. They expect that the U.S. will supply an uninterrupted flow of food products. Should their confidence in America's ability or willingness to supply grain or other feedstuffs wane, they may turn, and indeed have turned, to other sources for their needs. Such increased competition (in recent years from grain-producing Brazil, Canada, Argentina, and Australia) may cause increased supplies and, in a market affected by supply and demand, result in lower prices.

The United States is becoming viewed as an unreliable supplier because the Federal government has imposed trade limitations in the form of sanctions, embargoes, or suspensions. In recent years, the government has imposed trade sanctions in at least two instances: in 1973, soybeans and other oilseeds and their products were embargoed for export for reasons of short supply; in 1980, the export sales of all U.S. agricultural commodities to the Soviet Union were suspended.

A review of the unilateral 1980 grain sales suspension illustrates the many possible detrimental effects of trade sanctions.

On January 4, 1980, President Carter announced that he was suspending delivery of all U.S. grain (in excess of the eight million metric tons provided for under the terms of the 1975 U.S.-USSR Grain Supply Agreement) to the Soviet Union. In an attempt to stabilize the U.S. agricultural economy, USDA assumed the undelivered sales contracts which exporters had with the USSR. The assumption of these contracts, plus the initiation of several other stabilizing efforts, resulted in substantial costs to the government. While this financial expense alerted many to the potential dangers of unilateral trade sanctions, the less tangible, more symbolic costs may have generated an even greater concern.

Once the grain sales were suspended, and existing U.S.-Soviet contracts above the eight million metric ton level were in essence nullified, many recipients of American grain and other export goods and services developed serious doubts about the validity of U.S. export contracts. In addition, the ineffectiveness of the unilateral suspension of sales quickly became apparent as Russia simply turned to other suppliers of grain. These new suppliers have now established themselves as reliable providers, perhaps permanently replacing America as a principal in the Soviet grain market. Furthermore, embargoes have not been effective as foreign policy tools for they tend to punish, or at least inconvenience, people rather than governments whose policies we wish to change. The experience of the 1980/81 grain sales suspension has led to questioning the efficacy of trade restrictions and embargoes.

In reviewing this most recent experience with agricultural trade sanctions, two issues come to mind: (1) a form of contract validity was observed, in that sales of eight million metric tons, as called for under the US-USSR grain agreement, were honored; and (2) considering current budgetary concerns, would a future administration imposing such trade restrictions assume the financial cost of its actions? If not, the consequences for the agricultural economy would be devestating.

The reputation of the U.S. as a reliable supplier is critical to increasing and maintaining our agricultural exports.

Fluctuations in politics, economies, and weather affect export/import trends, adding an element of uncertainty to the export market. These catalysts may produce changes in the level or composition of agricultural exports. This export variability impacts upon prices, incomes, risks, market arrangements, both domestic and international, and ultimately influences the U.S. farm structure. The degree of vulnerability may be lessened by introducing measures which will assure as much as possible the ability of U.S. grain producers/exporters to supply their commodities to a world-wide market which views them as strong and reliable providers. The Council supports measures to guarantee, at least in part, the validity of contracts in the face of government-imposed commodity export embargoes.

The National Grain Trade Council believes that passage of the pending legislation will (1) encourage continued growth of agricultural exports and (2) restore confidence in America as a trading partner by insuring that what has been purchased will be delivered, even if export controls are introduced. With a viable, dependable export system, America's production and economic potential may grow and be fully realized.

NSPA
NATIONAL SOYBEAN PROCESSORS ASSOCIATION

1800 M STREET N.W.
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(202) 452-8040

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July 21, 1982

Honorable Richard G. Lugar
United States Senate
1113 Dirksen Senate Office Building
Washington, DC 20510

RE: NSPA Position on S. 2357

Dear Senator Lugar:

On behalf of the National Soybean Processors Association, I would like to convey our industry's strong support for your bill, S. 2357, to prohibit the U.S. Government from imposing export restrictions on agricultural commodities under valid export contracts, provided that such export contracts were entered into prior to the imposition of export controls.

For your background information, NSPA is the trade association of America's soybean processors. NSPA members process and market more than 95% of all soybeans crushed within the continental U.S. From nearly 80 processing centers in every major region of the country, NSPA members serve the American agricultural community, American consumers, and world markets. During the most recent marketing year closing September 30, 1981, over one billion bushels of the 1.8 bushels of soybeans harvested in the U.S. moved through the processing plants of NSPA's 20 member firms.

NSPA concurs with you that the U.S. foreign policy decision leading to the January 4, 1980 Carter agricultural export embargo was a mistake for the United States. Foreign customer nations, such as the Soviet Union, which had begun to make significant purchases in the soy complex, and which had relied upon U.S. exporters for an uninterrupted flow of agricultural commodities, are now seeking alternate suppliers, leading to greater international competition from key foreign suppliers of soybeans and soy products, notably Brazil and Argentina. The United States is increasingly being relegated to the role of residual supplier of last resort.

GAYLORD O. COAN
Chairman

EDWARD J. CORDES
Vice Chairman

SHELDON J. HAUCK
President

DONALD H. LEAVENWORTH
Secretary

LOWELL K. RASMUSSEN
Treasurer

NSPA likewise concurs with your view that, as a result of our previous misguided embargo policies, as well as the constant threat of a new embargo, U.S. farm prices have been driven down and the American farmer--not the Soviet Union--suffers.

Although NSPA is cognizant of the fact that S. 2357 would not provide complete protection for U.S. exporters in the event of a new embargo, we applaud your efforts as a positive step to provide U.S. exporters with a period of protection for valid export contracts in the event new export restrictions are imposed by our government.

Cordially,

Sheldon J. Hauck
President

cc: Mr. Chuck Connor, Legislative Assistant

SJH/pww

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STATEMENT BY NORTH AMERICAN EXPORT GRAIN ASSOCIATION, INC.

The North American Export Grain Association is an organization comprised of leading exporters of U.S. grain. Its 32 members account for approximately 90 percent of total grain exports from the United States. They are, therefore, understandably very interested in the substance of bill S. 2357 dealing with sanctity of contracts of sales of U.S. commodities.

The 1980 Carter embargo of grain shipments to the Soviet Union was one of a series of embargoes practiced by three presidents and the third in which bona-fide contracts, made for the export of U.S. grain, were canceled by the Government. It has understandably led to a great deal of questioning around the world. In a country best known for its freedom of business activity it is surprising that sanctity of contracts has had to be the subject of a Senate hearing, but we congratulate this group for having considered it important enough for hearings. The United States is the only country in which contracts have been treated so lightly, for other exporting countries honor the contracts which they negotiate with their customers. A contract can hardly be considered valid unless its sanctity is implied.

During the 1980 embargo, which was denounced by members of the current administration, the President apparently distinguished between the maximum quantities covered by the agreement and the additional quantities which had been offered the Soviets and for which they made contract with the private grain trade from the United States. This has led the Soviets to want a continuation of such an agreement, so that they can count on what they buy, and the U.S. industry also seeks assurance that it can sell grain to any country in the world without fear of embargoes.

While the embargoes have been chiefly directed against the Soviet Union, their effects have been felt in many other countries and in the U.S.'s trading relations with those countries. U.S. failure to ship against a valid contract is viewed as a blemish on the U.S. reputation as a dependable supplier. This leads—actually has already led—to a decrease in interest in the U.S. as a supplier and in having other foreign buyers seek to diversify their sources of supply if they are unable to reach an adequate degree of self-sufficiency in their own production. Any country which has had any political differences with the United States or anticipates it might would take steps to assure itself of the least possible dependence on the United States as a supplier of its grain requirements. This erosion of our foreign markets is one of the very basic problems with U.S. agriculture today.

During the 1970's the United States was seriously intent on expanding its exports and worked toward that goal. The 1970's was also the decade in which the increased import demand in the socialist countries became evident, and the coming together of these two factors resulted in a new prosperity for U.S. agriculture. It became almost completely independent of the U.S. Treasury and permitted the type of investment from among the agricultural community which was very beneficial for the manufacturers of farm implements, chemical companies, seed companies and other related industries. The period was one in which U.S. farmers increased their production to cover virtually all the expansion in the world grain trade, and all other countries depended on the U.S. contract and on the United States as a dependable source of supply. There were some embargoes during this period, and although they were of short duration and the Administration soon again encouraged the embargoed countries to buy again from the United States, the embargoes had long-lasting effects on world trade in grains. The United States is now paying for this poor judgment.

A classic example is the expansion of soybean production in Brazil and Brazil's sharply expanded role in world trade in soybeans. This production, encouraged by the Japanese who were alarmed over the embargoes of the 1970's, also encouraged Argentine soybean production and exports. Western Europeans still refer to the fact that in 1973 the United States cut across bona-fide contracts. As a result of the 1980 enbargo Mexico, up to that time almost completely dependent on the United States as a supplier of its grain requirements, began to diversify its sources of supply. This embargo has led to increased production in virtually all of the other grain exporting countries at the time the United States is building grain surpluses and is attempting vainly to cut back its own production.

The current situation is somewhat more complicated. The past actions have made it too easy for succeeding administrations to impose embargoes, and this has made our trading partners less confident in our reliability. The fact that the Administration cut across contracts in 1980 has made the Soviet Union understandably nervous about the U.S. as a dependable source of supply, and that country has since negotiated contracts with several other grain exporting countries. Last year a one-year ex-

tension of the old agreement, even with the guarantees implicit in that agreement, resulted in Soviet purchases of only about 30 percent of its requirements from the United States, despite U.S. Government invitations to purchase more. In the past the Soviet Union had purchased as much as 75 percent of its requirements from the United States. It now has multiple-year contracts with the other suppliers who have the first access to the Soviet market. If the United States is not able to indicate any certainty of delivery to the Soviet Union the United States' position with the Soviet Union and other world buyers will slide even further. This is the situation which Mr. Lugar has attempted to correct with this proposed legislation.

If the United States is intent on expanding its exports, some clarification of our export policies will be absolutely necessary. We would strongly urge passage of this bill, perhaps limiting absolute sanctity to reasonable quantities and/or time frames.

[From the Wall Street Journal, July 26, 1982]

UNITED STATES DIVIDED ON SOVIET GRAIN ACCORD

(By Jeffrey H. Birnbaum)

WASHINGTON.—The Reagan administration is deeply divided on the question of extending the U.S. agreement to sell grain to the Soviet Union.

Agriculture Secretary John Block has taken the side of the U.S. farmers, arguing in favor of negotiating a new long-term agreement to replace the current accord, which expires Sept. 30. "Rural America needs to know that its problems are being heard: there's a lot of unhappiness and frustration," he says.

But other Washington officials are firmly opposed to a new agreement. They say that grain sales to the Soviets should be cut back as punishment for aggression in Afghanistan and in Poland, and to curb Russia's military buildup. "No one here favors selling grain to the Soviets," says a Defense Department official, "If you really want to squeeze them hard, you should squeeze them hard."

Such, are the passions surrounding the soon-to-expire accord. Farmers and their friends in government are eager to unload the mounting U.S. surplus of grain on the Soviet Union, the world's largest buyer. But some foreign-policy strategists say the need to get tough with the Soviets should take precedence.

"As long as you're tempted to affect Soviet policy by tampering with trade, the question will always fall on grain," says Anton Walish, chief of the East Europe/U.S.S.R. branch of the Agriculture Department. Grain comprises the bulk of U.S. exports to Russia, which topped $2 billion last year.

FARM BANKRUPTCIES FEARED

Led by Agriculture Secretary Block, farmers are pleading for a new, long-term pact, or some sort of extension of the present one, to assure the sale of as much grain as possible. They warn of economic calamity in the form of rising U.S. farm bankruptcies if the current accord isn't renewed. Two straight years of bountiful American harvests have depressed grain prices, and farmers say they will take political vengeance if they don't get cooperation.

Hard-line officials, notably in the Defense Department, dismiss that view as shortsighted and self-indulgent. And some foreign policy makers tend to ridicule those who put domestic interests first. "The Agriculture Department is more of an enemy than Russia," one State Department analyst jokes.

To date, President Reagan has demonstrated sympathy for both sides. In April 1981, he lifted the grain embargo imposed by President Carter after Russia invaded Afghanistan. Despite the embargo, Russia had been able to get all the grain it needed from elsewhere, so Mr. Reagan reasoned that the Carter embargo "was bad for our farmers, bad for our country, but not bad for aggressors we were supposedly going to punish."

But after martial law was declared in Poland last December, Mr. Reagan couldn't resist grain diplomacy. Any renegotiation of the U.S. Soviet grain agreement, he declared, would require an easing of martial law in Poland. That stand threatens to block a long-term renewal of the grain accord, but a short-term extension is considered a possibility. And grain trade between the U.S. and the Soviets can continue without a formal pact.

Last week, Polish Premier Gen. Wojciech Jaruzelski eased martial law somewhat, but U.S. officials said the moves weren't likely to prompt major changes in U.S. sanctions against Poland or the Soviet Union.

PRESIDENT UNDECIDED

A White House spokesman said that President Reagan's decision about the grain agreement won't hinge on any single action in Poland, but would involve "an evaluation of Soviet behavior around the world."

Since it took effect in 1975, the grain agreement has served two main purposes. It has forced the Russians to spread out their purchases to prevent the kind of Soviet buying spree that emptied U.S. graineries in 1972 and subsequently drove up the price of bread. The accord also requires the Soviets to buy at least six million to eight million metric tons of corn and wheat each year, while allowing the U.S. to offer more when supplies permit. This assured market is an advantage for U.S. farmers.

From the start, however, the U.S. has tried to use the grain accord as a lever to pry concessions from the Soviets. The Ford administration tried to withhold completion of the pact until the Russians agreed to sell crude oil at a discount. Moscow firmly rejected the idea.

The hard-liners in the Reagan administration have bigger goals in mind. William Clark, the president's national security adviser, says the U.S. is determined to force Moscow to slow its military buildup. One way to do this, he says, is "to force out principal adversary, the Soviet Union, to bear the brunt of its economic shortcomings." Clearly, one of Russia's most blatant economic failures is its anemic harvests of recent years.

The ascendancy of this get-tough approach was evidenced in June when the U.S. broadened its Polish sanctions by curbing exports of equipment for the planned natural-gas pipeline from Siberia to Western Europe.

WEST EUROPEAN VIEW

West Europeans consider the pipeline sanctions an affront to their sovereignty and they point to the continuing sale of American grain to Russia as a chief contradiction of U.S. policy toward the Soviets. "It is inconsistent for you to argue that for domestic political reasons you can't impose a grain embargo and to ignore that Europeans have domestic political reasons not to want an embargo on pipeline equipment," says a British official here.

Prominent Americans also see hypocrisy in U.S. policies toward Russia. Former Secretary of State Alexander Haig, for one, sees the lifting of the U.S. grain embargo in 1981 as inconsistent in light of subsequent U.S. sanctions on the Soviet pipeline to Western Europe. Mr. Haig has labeled the lifting of the grain embargo as one of the worst foreign policy mistakes of the Reagan administration.

But the possibility of another grain embargo under Mr. Reagan seems remote. The President has pledged never to embargo exports of agricultural products alone and to avoid general embargoes unless allied nations cooperate.

Some officials argue that Soviet dependence on U.S. grain might help deter aggression. Alan Tracy, deputy undersecretary of agriculture, says that the U.S. now grows more crops for export to Japan than the Japanese cultivate for themselves. "If that were the case before World War II," Mr. Tracy asks, "would they have bombed Pearl Harbor?"

Agriculture officials carefully draw distinctions between sales of grain and of sophisticated pipeline equipment in their effects on the Soviet economy. The pipeline will earn revenue for the Russians, they argue, while grain purchases drain the Soviets' scarce hard currency. If grain is short in the Soviet Union, they say, the primary losers would be the Soviet citizens and not the Russian military machine. U.S. technology isn't easily duplicated, they add, while grain is available from many countries. Indeed, during the Carter embargo, Russia met its needs by buying grain from other suppliers, primarily Argentina and Canada.

Russia needs as many suppliers as it can get. Unfavorable weather, reduced plantings and inefficient harvesting appear to have condemned the Soviet Union this year to a fourth consecutive poor grain crop. The Agriculture Department recently lowered its projection of Soviet production to 170 million metric tons, and some private analysts say it may be even smaller. With an estimated grain crop of about 160 million metric tons in the year ending June 30, the Soviets strained their port capacity nearly to the limit by buying a record 46 million metric tons.

U.S. farm leaders say the American share of the Russian grain-import market has dwindled to about 30 percent, from 70 percent before the embargo. They say the U.S. needs an extended sales agreement, preferably long-term, to maintain that share. Several rival suppliers have completed grain agreements with Russia recently: Canada sweetened its accord with an much as $1 billion (Canadian) in government-backed loan guarantees.

POLITICAL FALLOUT

Moreover, the grain agreement has become a symbol of the U.S. government's commitment to rural America. The loss or weakening of that symbol could cause trouble this fall for Midwestern Republicans. "The political repercussions could be devastating," says Minority Leader Robert Michel of Illinois. "For us, this is a very critical decision."

Mr. Michel and other worried Farm Belt lawmakers would be happy with a simple one-year extension of the present pact. But farm leaders want a long-term agreement with higher minimum purchase requirements. "A simple extension should have a negative effect on the market; farmers would be disappointed," says Robert Frederick a lobbyist for the National Grange, a farm group. Failure to open talks for a more generous agreement, warns Robert Mullins of the National Farmers Union, "may well be the last straw for a lot of these folks."

Certainly, this country's farmers are in perlious straits. Because of low prices and high indebtedness, U.S. farm income is expected to decline for the third consecutive year. Grain farmers who prospered during the export explosion in the 1970s suffer now from stagnant world-wide demand and stiffer foreign competition. "We are moving dangerously close to a situation like that of the late 1950s and early 1960s, when surpluses, low prices, government programs (and) export subsidies dominated the grain scene," says John A. Schnittker, a Washington-based agricultural economist.

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